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A SYSTEM

OF

POLITICAL ECONOMY.

BY

JOHN LANCELOT SHADWELL.

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PREFACE.

I COMMENCED studying POLITICAL ECONOMY at the time when the publication of Mr. Thornton's work on Labour had just given so rude a shock to the common belief that the science, so far as it dealt with the subjects of Value and Wages, was complete. The late Mr. J. E. Cairnes, whose lectures I had the privilege (for such I must always consider it) of attending, particularly directed the attention of his pupils to the conflict between Mr. Thornton's views and those commonly held on these subjects, and expressed his own opinion that the commonly received theory required thorough revision. His own views were afterwards given to the world in his "Leading Principles of Political Economy," published only a year before his untimely death. My attention having been by him directed to the subject, I have found reason to be dissatisfied with the common theory, with his own modification of it, and with that which Mr. Thornton would substitute in its place. I now wish to lay before the public my theories of Value and Wages, which I believed to be new when I adopted them, but in which I have since found that I have been forestalled, in the former case by Adam Smith and Mr. Cazenove, and in the latter by Mr. Jevons. I have thought that the theories would be likely to receive more attention if worked into a System of Political Economy, and I have, therefore, in the following pages, discussed most of the questions commonly dealt with in treatises on the science. Having been frequently obliged to refer to

sums expressed in the money of different countries, I have thought it most convenient to reduce all statements to a common denomination, and have employed the French system, both for money, weights, and measures, as being in all respects the best with which I am acquainted.

JOHN L. SHADWELL.

21, NOTTINGHAM PLACE, LONDON, W.
January, 1877.

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„ 599 „ 19	„	execu	„ execution.
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SYSTEM OF POLITICAL ECONOMY.

INTRODUCTION.

CHAPTER I.—GENERAL VIEW OF THE SCIENCE.

OBJECT OF THE SCIENCE—OBJECTIONS CONSIDERED : POPULAR—MORAL —SCIENTIFIC—LAISSEZ-FAIRE.

Political Economy is the science of wealth. It investigates the laws which regulate the conduct of human beings when engaged in the production, distribution, or exchange of wealth.

Its primary data are furnished by universal experience, or common sense, and these it collects and arranges in such a way that their application to the facts of common life may be easily perceived, and often in such a way that they seem to be at variance with the teachings of experience, although in reality in perfect harmony with them. It does not undertake to teach individuals how to get rich, but by pointing out the general causes which promote the accumulation of wealth, it teaches legislators and administrators in what manner their laws and acts promote or impede the industrial prosperity of their subjects. Every Government is obliged to interfere more or less with the conduct of its subjects in relation to the accumulation of wealth, and rulers must therefore have some theory, both as to the nature of wealth and the way in which it is amassed, in order to guide their conduct. Political Economy cannot, indeed, dictate to rulers what they ought to do, but it can show them what the effect of their acts will be, and leave them to draw their own inferences. Thus, it may show that a particular law or tax will diminish the wealth of a community, but it is unable to decide whether that law or tax ought to be maintained ; for the ruler may consider that an increase of wealth would injure the morals of the people, or that their wealth should be sacrificed for some temporary political object.

In like manner physiology teaches us that suspension by the neck will produce death, but cannot tell us whether capital punishment ought to be maintained or abolished. As physiology is useful in teaching us

what are the functions of the body, and warning us to avoid whatever interferes with their due discharge, so Political Economy is useful in teaching us the nature of the social mechanism, and warning us to avoid whatever interferes with its action, unless we have some more important object than wealth in view. Though the generalisations from which the science starts are so simple and obvious, that every one accepts them in theory and in practice in the management of his own affairs, yet in dealing with the affairs of others, people are apt to lose sight of them, and to act in such a manner as they could hardly do if they had meditated long over these simple truths, and learned how they apply to actual circumstances. That money is of no use unless it can be spent—that people cannot live without food—that it is convenient to save trouble—are propositions which every one admits where his own business is concerned ; yet statesmen often act, and philosophers often reason, in a manner which is quite inconsistent with the recognition of these truths. As very few statesmen have either the time or the inclination to pursue abstract studies, it is necessary that another class should devote themselves to the task of tracing out the laws which govern human conduct, and showing how they apply in different cases, so that statesmen may avail themselves of the results of their labour. It is thus that Political Economy has grown up from the necessity which men experienced of having a correct theory by which to guide their conduct. It is not in the nature of things that a large number of people should devote themselves to this one science, and there is no reason to complain that the great majority are indifferent to it ; but it is much to be regretted that there is in many minds a positive hostility to it. This is to some extent the fate of every science which comes into collision with popular prejudices ; and the astronomer and the geologist have had to encounter the charge of sapping the foundation of religion, because their discoveries were opposed to some portion of a particular creed. Astronomy and geology have now triumphed, and compelled their opponents to admit either that the particular creeds are altogether false, or that the portions which were attacked are not essential parts of them. Political Economy is doubtless destined to triumph over all its adversaries, but they are at the present day so numerous, and there are amongst them so many men whose opinions are entitled to the highest respect, that an examination of the principal objections which have been urged against it will form a fitting introduction to a detailed exposition of the science. They may be divided into three classes : The popular, the moral, and the scientific, and will be discussed in this order.

A common objection is that it is of no use. Now, the use of it is to

point out to statesmen the consequences of their own acts, and to say that it is of no use is to say that it does not matter whether they know what they are doing when they enact a law. When a Government imposes a high tax on foreign manufactures, it generally defends its conduct on the ground that it thereby increases the wealth of its subjects. Now, the question whether it has this effect is an economic question, and the Government proceeds quite as much on a scientific theory, when it assumes that it has this effect, as the advocates of Free Trade do when they contend that it has not. The only question is, which is the right theory; and the use of deciding it is to prevent the Government from committing an error which will have the effect of diminishing the wealth, which means the comfort of many of its subjects. Again, many Governments levy taxes for the purpose of relieving poverty, and the aid of science is required to show whether these measures tend to diminish poverty or rather to increase it. By levying these taxes rulers show that they wish to diminish it, and if they do so, it must be useful for them to know whether their measures are likely to secure their object. To give particular instances: In 1810 public attention was called to the fact that the notes of the Bank of England would not purchase as much gold coin as they nominally represented. Lord King informed his tenants that he would no longer receive a twenty pound note as a payment of £20 rent, and Parliament was obliged to decide whether bank notes should be made legal tender in payment of debts contracted when they were on a par with gold. If they decided wrong, they must have injured either debtors or creditors, and they wished to do justice to both. It was an economic question, for it was a question whether gold or notes had altered in value, and it could not be solved without reference to abstract principles. In fact, two eminent economists, Ricardo and Tooke, were induced to undertake a long course of abstract reasoning and laborious research, by their desire to arrive at a right conclusion on this practical question, which excited much interest at the time, but which might now have been forgotten if it had not been for their writings. In the last generation a controversy was originated by Wakefield relative to the best means of disposing of waste land in our colonies. Here, again, a reference to science was necessary, in order to ascertain whether low wages conduce to the increase of wealth, and whether putting a high price on land promotes either or both of these objects. More recently a Royal Commission was appointed in 1868, to consider a proposal made by the French Government, that the quantity of fine gold in the sovereign should be reduced, so as to make it contain exactly the same quantity as five five-franc pieces. The objection was instantly raised that the

reduction would lower the value of the sovereign, and that much inconvenience would be caused if all debtors were obliged to add 1 per cent. to all their debts, however small; and it is the task of Political Economy to decide whether such a measure would actually change the value of the sovereign.

But rulers are not the only people who need the aid of this science. All who wish to dispense charity may profitably consult it, for it will help them in judging how far the effects of a particular mode of dispensing it is likely to prove beneficial or injurious. Socialists and all who desire social reforms ought to consult it, in order that their plans may be well devised and meet with success. Unfortunately, these are the very classes which profess the greatest hostility to the science. They generally find some doctrine in the writings of economists which is opposed to their particular scheme, and they suppose that Political Economy is worthless because they object to this particular doctrine. But this is not the proper way to treat science. Science makes no demand on the faith of its votaries, and is not bound up with any doctrine, but only requires men to believe what has been proved to be true. If socialists can prove that free competition among capitalists and workmen retards the production of wealth in general, or reduces the earnings of the labourers, economists will cheerfully and gratefully accept this addition to their knowledge, and admit that they have been mistaken, but not that the science is useless. Alphonso the Tenth, King of Castile, said that the Ptolemaic system was a crank machine, and that it was a pity that its inventor did not take advice. We now know that the system was erroneous. But we should not give the king credit for much sagacity if he had said that astronomy was a crank machine, and our belief in its utility is stronger than ever. So the time may come when the world will adopt Mr. Ruskin's* plan of fixing a rate of wages for every kind of work, and of paying the same to all workmen, whatever their skill. But Mr. Ruskin himself considers that the rate should be fixed every year, and that they should be different in different employments, and Political Economy would still be needed to explain these differences and fluctuations.

The science is often taunted with its impotence. Comte complained that it was unable to point out a remedy for the distress occasioned by the introduction of a new process, which prevents men from working in the manner to which they are accustomed. Mr. Ruskin complains that it is unable to establish harmony between employers and employed.

* See "Unto this Last." Four Essays on the First Principles of Political Economy. By John Ruskin. 1862.

But though it is not able to cure all existing evils, it may fairly lay claim to some attention if it explains their causes. It is interesting to know the causes of eclipses and earthquakes, although such knowledge gives us no power to prevent them. The number of historical works which are published every year evinces the interest which people take in the history of past times, although they do not expect to turn their knowledge to practical account. Economic discoveries have already thrown great light on history, and cannot fail to throw much more, and as intellectual culture becomes more widely diffused there will be found more and more minds to derive pleasure from a knowledge of the laws which govern the universe, and among these the laws which govern the growth of society will always receive their share of interest.

There are some who base their objections on moral grounds. It is said that the science looks only to the accumulation of wealth, but that the accumulation of wealth is not a good thing, or is not the only thing to be desired. This objection perhaps arises from a misapprehension of terms. Wealth, in the sense in which it is used by economists, does not mean large fortunes, but commodities which are useful or agreeable to man, and it includes the food and clothing of the poorest labourer. The very persons who denounce a science of wealth complain the loudest of the poverty which still afflicts a large number of our countrymen; but without understanding the causes of the production of wealth, it is impossible to discover a way of increasing the comfort of these classes. It is often said, as this science is only concerned with wealth, it sanctions any means which are employed to obtain it. Thus Mr. Ruskin says, that a master is acting on strict economical principles when he gives a servant the lowest wages, and extracts from him the greatest amount of work that he can without inducing him to quit his service, but that in Mr. Ruskin's opinion, the servant would work better if kindly treated. Now, in the first place, Political Economy does not recommend the production of wealth at the expense of morality, but only points out how its production may be carried on! And, in the second place, it points out that men do much less work when they are ill, than when they are well treated. Mr. Frederick Harrison objects to it, on the ground that it only inquires, What are the rules which now regulate human conduct? whereas these rules are very faulty, and we ought rather to endeavour to induce mankind to adopt higher and better rules, and that a social reformer finds the science useless, because it only seeks to explain a state of things which it is the reformer's aim to abolish. Thus while on the one side the science is ridiculed for its inability to recognise existing facts, it is attacked on the other for merely concerning itself with existing facts, and not discussing what human conduct might be if men were

different to what they are. But the science is no more pledged to the maintenance of our present social institutions, than astronomy is pledged to uphold the perfection of the solar system. The solar system and English society are matters for scientific investigation, because they exist; but astronomy and Political Economy would still have work to do if all the other planets should cease to exist, or if England were depopulated. Abstract principles are best explained by illustrations drawn from actual practice, and economists therefore prefer to cite examples from societies which exist, or have existed; but they are perfectly willing to discuss the schemes of socialists, or other reformers, and if they make any pretensions to effect a larger production or a better distribution of wealth.

Hostility to the science frequently takes the form of objection, not to the science itself, but to the method by which it is at present pursued. Thus Mr. Ruskin admits that its conclusions follow from its premises, but says that it is inapplicable, because it takes no account of the social affections. He compares it to a science of gymnastics, which should assume that men had no skeletons, and should recommend that the pupils should be rolled up into pellets, or other impossible things, and says that such a science would not be more useless than one which assumes that men are guided solely by their interests. There is certainly some force in this objection, and great caution is always necessary in predicting the consequences of economic laws. A margin must always be left for the effect of the motives of affection, ignorance, or prejudice, but there are two circumstances which deprive the objection of much of its force. The first is, that these motives, when they act in opposition to self-interest, frequently counterbalance one another where large numbers are concerned, and thus do not affect the general result; the second is, that the interests of all men are in harmony with one another, and therefore the path of interest is the path of duty. If the time should ever come when men will desire to live for others rather than for themselves, their motives will be changed; but their conduct will be, to outward appearance, much the same as at present.

Those who are engaged in dangerous occupations now receive high pay, in order that self-interest may induce them to run the risk. If hereafter men will engage in them, from a sense of duty to society, society will feel bound to give them high pay in order to compensate their sacrifice.

Comte objects to the method which is followed by economists of tracing the consequences of one set of motives, and declares that, though this method is appropriate to physical science it cannot be applied to the phenomena of society, on account of their peculiar solidarity. He however gave no reason for such a distinction. It is perfectly

true that human conduct is regulated by a great complexity of motives, but this is equally true of the phenomena of the physical world, in both cases there are many causes acting at once, and the effects are very complex; but this complexity has been unravelled in physical science by examining the different causes separately. The discharge of a gun gives rise to sound, heat, mechanical motion, and chemical decomposition, but neither Comte or anyone else ever gave this as a reason for uniting acoustics, thermology, mechanics, and chemistry in one science. All phenomena appear very complex before they are submitted to scientific analysis, and Comte's argument amounts to this, that the separate investigation of different causes enables us to understand complex physical phenomena, but that this method is inapplicable to social phenomena, because they are complex.

It is true that an economist may derive advantage from an acquaintance with other sciences, but this is equally the case with a chemist, and furnishes no argument against the method of tracing out separately the effects of different causes. It is but fair to mention, that Mr. Harrison considers that Comte merely meant to say that Political Economy is only a branch of sociology, just as selenology is a branch of astronomy, and that it is not of sufficient importance to be considered a science. If this be all Comte meant, then there is nothing to discuss; for it would be as profitless to dispute whether it is to be called a science or a branch of a science, as whether a particular plant is to be called a distinct species or a mere variety.

There is one objection which has not yet been noticed, but which is put forward more often and more vehemently then any which have been discussed, and which in reality lies at the root of all the hostility which is evinced towards the science. Comte, Mr. Ruskin, Mr. Carlyle, and a host of less eminent persons desire to induce governments to do much more for their subjects than simply protect their lives and property, and wish them to provide for their material, moral, and intellectual welfare, and they object to Political Economy, because they believe that it recommends governments to let alone all things which are not implied in the protection of life and property. They regard it as bound-up with the doctrine of Laissez-Faire, and if it were not for this, it is probable that none of the objections already recited would ever have been made, or at all events sanctioned by such eminent names. Now, strictly speaking, it is not more true that Political Economy, than that physiology is identical with Laissez-Faire, or let alone. Physiology teaches us that the health of children is promoted by eating sugar, and injured by eating fat; and those persons who desire that their children should enjoy good health, may draw the inference that their likes and dislikes furnish the

best guide in the matter. In the same way Political Economy shows that the wealth of a country is promoted by Free Trade with other countries, but it cannot decide whether it is advisable to sacrifice this advantage in order to make war to avenge some injury or insult, any more than physiology can decide whether parents would act wisely in thwarting their children's inclinations in order to teach them obedience, self-sacrifice, or any other moral quality. All these are questions for the moralist, and if the result of scientific inquiry is to show that men can accumulate more wealth when left to follow their own inclinations, unchecked by compulsion and unassisted by the direction of Government, it remains for moralists to decide whether such accumulation ought to be sacrificed to some other object, or whether we ought to let people alone, that they may obtain as much comfort as possible. If morality decides for the former alternative, the advocates of paternal government have nothing to complain of, and if for the latter, their opponent is not Political Economy, but morality. Let alone is not a precise expression, and has sometimes been used so as to include leaving undisturbed the power which some classes receive from the law of interfering with the liberty of others. If it is to have any consistent meaning, it must mean leaving every individual equal liberty of action, and this implies curbing their actions whenever they interfere with the liberty of others. In this sense it must be admitted, that the tendency of scientific inquiry is to show more and more convincingly that Laissez-Faire is the best maxim for governments to adopt when they desire to see the material comfort of their subjects increased, and as the moral standard of the human race is gradually raised they will feel more and more convinced that it is their duty to abstain from all acts which interfere with individual liberty. Thus science and morality go hand-in-hand, and while the one indicates a line of action as the most conducive to happiness, the other indicates the same line as the path of duty. While prepared to examine any arguments which may be brought forward in its favour, Political Economy must oppose the same uncompromising resistance to those who prefer paternal government to truth, as natural history to those who prefer the book of Genesis to truth, and can appeal with equal confidence to the judgment of posterity.

CHAPTER II.—HISTORY OF POLITICAL ECONOMY.

EARLY THEORY OF WEALTH—THE MERCANTILE SYSTEM—THE ECONOMISTS : ADAM SMITH, MALTHUS, SAY, RICARDO, TOOKE, MILL, LONGE, AND THORNTON.

EVERY science is slowly built up by the labours of many thinkers. The first steps are always difficult, and many failures precede every success. A rude theory is first constructed, which embraces a few facts. Then more facts are collected, and are explained by this theory, until at length they become too numerous and too various to be explained in the old way, and after numerous attempts have been made to fit them to it, some thinker, renouncing the attempt in despair, is driven to question the truth of the theory. Then he frames a new one, which embraces the facts known to him, and more facts are collected, until the new one is, in its turn, found to be insufficient, and is, in its turn, superseded. The framer of a new theory is anxious to destroy the old one, and naturally regards it as an obstacle in the path of progress, which, indeed, it is when the new one is proposed. But it is a mistake to suppose that obsolete theories, at the time when they were generally believed, materially impeded the progress of knowledge. Men must generalise the result of their knowledge, however imperfect, and without doing so they would neither care to collect information, nor be able to arrange what they had collected.

In this way theories, which we now regard as most absurd, have served to guide the industrious toilers who have collected the materials on which the great thinkers have founded their grandest discoveries.

No man of genius, though he be a Newton or a Darwin, is able to construct a science in its entirety. He can only add the superstructure to the foundations which others have laid, and would be unable to frame his theory if he were not possessed of the information collected by men who believed that the sun went round the earth, or that the forms and habits of animals were given them by their Creator, in order to fit them for the life which they now lead. The sketch of the progress of Political Economy which I am about to give will show

> **" That men may rise on stepping stones**
> **Of their dead selves to higher things "**

in this and all other departments of knowledge.

It will be the more useful, because in learning the science every

individual passes through the leading stages of thought which economists, as a body, have passed through, in bringing the science to its present state.

The first idea which every one entertains respecting wealth, is that it consists of money, and this is the earliest of all economic theories.

Looking at a few facts, we observe that tradesmen are always anxious to obtain money in exchange for their goods, and that labourers are always anxious to obtain money by their labour. Naturally enough, they concluded that the object of all men was to obtain money ; and, as the wealth of individuals is always estimated by comparing the quantity of money which they possess, it was supposed that money alone constituted wealth.

The early rulers of England regarded it as their duty to prevent their kingdom from being impoverished ; and, as they never thought of disputing that wealth consisted of gold and silver, they held themselves bound to prevent, as far as possible, the exportation, and to encourage the importation of these metals.

To obtain this latter object, they prohibited their subjects from selling their wares on the continent, except in a few specified towns, where they appointed officers to see that in every bargain the English merchants received gold or silver, in exchange for commodities of English growth or manufacture. Thus, foreign wares could not be imported by Englishmen, and when foreigners imported them similar precautions were adopted to compel them to take English goods in exchange, and prevent them from taking away more money than they might require to pay their travelling expenses back to their own country. When the East India Company was established in 1600, they found it profitable then, as now, to export silver to India and China, and they received commission to export foreign coin and bullion to the amount of £30,000, on condition of importing a larger quantity from other countries. This practice of theirs led to a controversy which gave the first shock to the primitive theory that wealth consisted of money alone.

The company were charged with impoverishing the country by sending silver out of it, and some of their servants felt it incumbent upon them to defend their conduct. The only argument that occurred to them was, that though they sent silver to India, they obtained in exchange Indian goods, which they sent to other countries, and from these latter received a much larger quantity of the precious metals than they had previously exported. One of the ablest of them, Thomas Mun, compared the transaction to the operations of agriculture, saying that, as the ploughman throws seed in order to obtain a much larger quantity

when the harvest arrives, so the company took something from the wealth of the country, only in order to return what it had taken, together with a large addition. He constructed on this basis what has been called the mercantile system, which recognises that it is often necessary for a country to part with a portion of its stock of the precious metals, but which teaches that trade ought to be carried on in such a way that in the long run the imports of bullion should exceed the exports.

It is to this that we owe the terms which are still in use, favourable and unfavourable balance of trade. The balance was said to be unfavourable when gold was passing out from a country, and favourable when it was coming in. Though we no longer believe that wealth consists of the precious metals alone, these terms are still retained, and, as Mr. Goschen points out, an unfavourable state of the exchanges is really such to bankers and merchants, as it compels the former to restrict their advances and the latter to pay a higher rate of interest; and it is generally at such times that commercial crises occur. The difference was but slight between the old system, which the late Mr. Jones* called the balance of bargains, and the new one of the balance of trade. Both assumed that the precious metals alone constituted wealth; but whereas the former taught that all exportation of bullion was a national loss, the latter allowed that it was sometimes profitable. Having advanced thus far, the next step was to show that exportation never took place unless it was profitable, and this the supporters of the East India Company in time proceeded to do. Towards the end of the 17th century a new controversy arose, in which the company were charged with impoverishing the country in two ways—first, as before, by exporting bullion, and, secondly, by importing silk goods of Indian manufacture. Then, as now, it was said that foreign competition was ruining our manufactures, and the supporters of the company were obliged to inquire into the nature of wealth in order to defend themselves. As soon as they seriously asked themselves what wealth was, they perceived that it did not consist of the precious metals alone, but of all commodities which are the objects of human desires. If we confined our observation to a single hour, we see that a tradesman is desirous to part with his cloth, and obtain money; but if we look a little longer, we see that he is anxious to part with his money to obtain bread, meat, clothing, and other commodities which he finds useful or agreeable. All men desire to obtain money, but it is

* See an interesting sketch of the Early Political Economy of England, in the Literary Remains of the Rev. R. Jones. Edited by Dr. Whewell. 1859.

only that they may exchange it for other things, and if they could not so exchange it, they would not care to possess it. Some people had pointed this out even so long ago as the time of Aristotle,* and he in siding with them illustrated his argument by a happy allusion to the legend of Midas. Midas was said to have prayed to the gods for the power of turning everything which he touched into gold, but as even his food and drink turned into gold as soon as they touched his lips, he would have starved if he had not been relieved from his uncomfortable privilege. The company contended that they increased the wealth of England by bringing in the silks which the people wanted, and sending away the bullion which they did not want. Their opponents argued, that it was better for England to manufacture things at home which she could import more cheaply from abroad, and induced Parliament to prohibit the importation of Indian silks. Their successors at the present day asked Parliament to provide for the education of workmen, in order that we may make at home what we can import more cheaply from Germany. But although the company did not obtain their object of convincing the Legislature, they convinced many thoughtful men that wealth was a different thing from money, and this was kept in mind by a succession of English writers from Dudley North to Hume and Adam Smith.

The English began to study the science of wealth in order to defend commerce; the French were prompted by a desire to reform their system of taxation. Guilbert towards the end of the 17th century, and Vauban in the beginning of the 18th, ably exposed the unequal and oppressive character of the French system, and suggested various remedies. In the middle of the 18th century, Quesney based a new scheme of taxation on a peculiar theory of wealth. He saw that all wealth was originally obtained either from the land or the water, and from this he inferred that no labour was productive of wealth except that employed in agriculture, fisheries, and mines. He admitted that the manufacturing and commercial classes were useful, but denied that they added anything to the wealth of the country. He saw that farmers paid rent to their landlords, while manufacturers and merchants did not, and this seemed to him a further proof that agricultural labour alone was productive, since it alone yielded a surplus, while those engaged in other occupations consumed all that they produced. Hence he argued, that all taxes must fall on the landlords, for if anything were taken from the productive labourers it would diminish their powers of production, and consequently the surplus paid to the landlords, and as all the unproductive

* See his "Politics." Book I., Chap. 9. Mr. Congreve's Edition.

labourers were maintained by the productive ones and the landlords, whatever was taken from them must be likewise taken from the landlords. From this he drew the natural inference, that it would be much better to raise the whole revenue of the State by one simple tax on the landlords. Quesney committed a great mistake when he supposed that manufacturers did not increase the wealth of a country. In reality, everyone increases wealth who gives to matter a new form, or places it in a position which makes it useful to man. No one can create matter, but the man who brings iron from the bottom of the mine to the surface places it where it will be of more use, and the same thing is done by the man who heats iron in the furnace and makes it into knives, and the labours of both are equally productive. Quesney was also mistaken in supposing that taxes could not fall on labourers, for this is impossible only if they are already reduced to such poverty that they have but just enough to support life, a state of things which nowhere exists and is never likely to exist, and which is inconsistent with the existence of any government. But although the fundamental principles of his theory were unsound, it attracted considerable attention at the time, and he became the founder of a school known by the general name of the Economists, who were principally distinguished by the zeal with which they advocated the abolition of all restrictions on the freedom of industry, whether in the form of protective tariffs, monopolies, or limitation of the number of apprentices. It may be here remarked, that the science has received the name of Political Economy, because many of its earliest students desired rather to teach governments what they ought to do, and regarded their inquiries into the nature of wealth as a means to this end.

The science of wealth was definitely founded in 1776, when the Scotch philosopher, Adam Smith, published his "Inquiry into the Nature and Causes of the Wealth of Nations," a book which Buckle went so far as to pronounce the greatest work ever written. Much, as has been seen, had been already done to explain the phenomena of wealth, but Adam Smith raised the study to the rank of a science; that is, he selected what was good from the works of previous writers, and arranged it in such a manner as to show that all followed logically from a few simple principles, and he did this with the object of discovering the laws which govern human conduct, not of prescribing rules for governments to act upon. He, indeed, pointed out in a most forcible manner the injury which was done by the foolish meddling of governments in the affairs of their subjects, and he enumerated the advantages and disadvantages of different modes of raising a revenue. But he introduced many of his arguments on these subjects for the sake of illustration merely, and his object was truth, and not efficient administration. His work has been

quoted, edited, and translated until there is scarcely an educated person who has not some acquaintance with at least its general nature. This popularity is mainly due to the illustrations with which the work abounds, and which are of the most varied and interesting description, furnished either by the author's own experience, or by his extensive course of reading. The explanation which he gives of historical facts, and of the condition of his own and other countries, would be sufficient in themselves to make the work valuable ; but it is the method which secures for it a high rank as a scientific treatise.

He took a few principles and traced out their consequences, and only introduced facts in order to make his argument clearer, so that it remains unshaken, whatever mistakes he may have committed in collecting his facts, or whatever alterations may have taken place since his time. He shrank from no consequence to which his principles led, but said boldly whatever he believed to be true, no matter how much it was opposed to the political institutions of his time. Very many changes which he recommended have now been adopted, but many are still waiting to be made, and his arguments still remain unanswered and unanswerable.

Adam Smith showed, in opposition to the economists, that manufacturing as well as agricultural labour is productive of wealth, which, like them, he declared to consist of useful commodities produced by labour, and not simply of money. He gave the *coup de grace* to the mercantile system, which has not since his time been openly maintained by any economist, although the belief that wealth is identical with money still lingers among commercial men who have not found time for theoretical studies. Smith himself could not avoid some errors which are directly traceable to the old belief, and later economists, even down to the present time, have sometimes been unable to distinguish clearly between money and wealth ; and to do so on all occasions requires the most constant vigilance on the part of the student. It having been settled what wealth was, the next subject for inquiry was the nature and cause of value. Smith pointed out the difference between "value in use" and "value in exchange." The former expresses the utility of an article which satisfies any human wants, while the latter expresses the esteem in which a thing is held which is capable of being bought or sold. When philosophers wished to ascertain the cause of value, it naturally occurred to them that there was a class of men whose business consisted in settling and in foreseeing changes of value, and that this class were most likely to be provided with some theory to account for the facts with which they were so familiar. It is to this, the commercial class, that Adam Smith owed the theory that value is regulated by supply and demand. It is to them that we owe the theories that wealth is money,

that the use of commerce is to provide a market for exports, that cheap labour is necessary for the production of wealth, and many others which, though useful in their time, are vitiated by the narrow views which traders take of their own interest, and have done much to give to Political Economy somewhat of the air of a system drawn up in the interests of one class. When a tradesman says, for instance, that the value of flour is determined by supply and demand, he simply generalises the sellers in the word supply, and the buyers in the word demand, and means that flour exchanges for gold at such a rate as the bakers and millers can agree upon. This is, in substance, the explanation of value which Turgot gave in his essay on the production and distribution of wealth, published a few years before "The Wealth of Nations."

Smith pointed out that commodities have a natural value which depends on their cost of production, and towards which their market value is always approximating.

In a simple state of society, he thought the natural value would depend solely on the amount of labour required to produce the article. Where all labourers work on their own account, a coat which has required the labour of two days to produce will exchange for two knives, each of which is produced in one day. But in a more advanced society he considered that the value of an article must be sufficient to reimburse the rent of the landlord, the profit of the capitalist, and the wages of the labourers who produced it, because if the producers do not, in the long run, get this amount, they will cease to produce. Such was his explanation of natural value; but he also endeavoured to explain market value, which is not always sufficient to compensate the cost of production, and sometimes greatly exceeds it. To explain it he had recourse to the theory of demand and supply; but he found that these terms were not sufficiently precise. Demand could not be simple desire, for the desire of a beggar to possess a diamond had no effect on its price; and he, therefore, substituted "effectual demand," signifying desire backed by ability to purchase, and said that the market value of an article settled at such a point that the effectual demand was just equal to the whole supply actually brought to market.

In the same way he showed that there was a minimum rate below which wages could not fall; that, namely, which was necessary to enable the labourers to provide themselves and their families with the necessaries of life, or with what they consider such. The actual rate of wages was, he thought, determined by two factors, the demand in the shape of the capital in the possession of the employers, and the supply in the shape of the number of labourers. If the demand for labour—that is, the capital out of which the labourers are paid were increased

—the supply, that is, population, would be increased also, because the labourers would be better off and better able to bring up their families.

This last suggestion received confirmation in 1798 by the publication of Malthus' essay on population, an able work, which was afterwards much enlarged and improved, and which clearly demonstrated that in all countries the fertility of the human race would produce a much more rapid multiplication, if it were not for the difficulty of obtaining food and other necessaries.

The French economist, J. B. Say, published in 1804 a treatise on Political Economy, in which he arranged, in a much more convenient form, the substance of the "Wealth of Nations," but added very little to it. The first edition was soon exhausted, but Napoleon prohibited the publication of a second, which did not make its appearance till 1814, since which time several have appeared, and it has always enjoyed a high reputation, especially in France.

The greatest work ever contributed to the science was Ricardo's "Principles of Political Economy and Taxation," which was published in 1817. Two works can hardly differ more from each other than that of Ricardo from that of Smith. While the latter never lays down a principle without adducing a fact in accordance with it, the former lays down abstract principles generally without any illustrations, and never with any which are more than imaginary. By proceeding on this plan Ricardo was able to grasp principles, the operation of which is very much obscured in actual practice, for by never appealing to facts, he avoided encountering any which conflicted with his views, and saved himself from being bewildered by their complexity. But his method has this disadvantage, that a mistake committed at the beginning is not detected at the end; but he enunciated the theory with the same confidence as a school-boy shows up his sum in which he has made a mistake of one figure at the beginning. Thus he has been ridiculed for saying that the interests of landlords were opposed to agricultural improvements. So preposterous a conclusion would have induced an ordinary man to doubt the soundness of the reasoning which led to it, but it followed from his premises, and he put it forward without hesitation. His principal contribution to the science was an extension of Smith's theory of natural value. Smith, as has been already mentioned, showed that in a single state of society the exchange value of commodities was in proportion to the labour necessary to produce them.

Ricardo showed that this was the case in all states of society, but that we must reckon the labour which is indirectly as well as that directly applied. The value of cloth in proportion to corn depends on the labour employed in growing the cotton, and in making the machines, as well as

that actually employed in the cloth factory. He admitted that the relative value of two things, which had required equal quantities of labour to produce, was affected by the longer or shorter time during which the capitalist had to wait for his recompense, but he denied that rent had any effect upon value.

He showed that many articles, and in particular corn, were produced in different places with different quantities of labour; but that their value depended on the labour employed in the least favourable circumstances, in which the demand for the commodity made it necessary to expend it, and that rent was the surplus obtained by those who worked in better circumstances. Thus rent was explained, and instead of showing, as Quesney had thought, that agriculture was the only productive industry, it simply showed that agriculture was less productive in some places than in others. This theory of natural value is now recognised as one of the fundamental principles of the science, and those who refuse to adopt it are shut out from the comprehension of the more involved Economic problems.

Ricardo added nothing to Smith's theories of market value and wages. He gave the name of natural rate of wages to that which gave the labourers that amount of comfort which they considered necessary, and without which they would refuse to propagate their race.

The defect of his method appeared when he endeavoured to explain actual facts. His first work, "The high price of bullion, a proof of the depreciation of bank notes," was published in 1810, in order to explain the difference between the value of notes and gold, which was then attracting public attention. He had decided, on theoretic grounds, that the value of money varied inversely as its quantity, and from this it followed, that if a Government were to force into circulation a number of notes not convertible into coin, the value of money would be lowered and gold would be exported. It followed also that, if when all the coin had been exported, the Government maintained in circulation a greater nominal amount of notes than there had formerly been of coin, the price of bullion measured in notes would rise. He found that the notes of the Bank of England were not then convertible into coin at the pleasure of the holder, that gold had been exported, and that it bore a premium, and he concluded that the first of these facts was the cause of the other two. It was in vain that he was told that gold was frequently exported on the occasion of a bad harvest, without having fallen in value. It was not included in his theory, and he denied its possibility. It was in vain that he was told that the Bank had not issued more notes than were required by the trade of the country. He saw that they were not on a par with gold, and decided that their excessive issue must be the

cause. Very different was the spirit in which his friend Tooke entered on the investigation of the subject. A patient examination of the Bank returns convinced him that there was no connection between the number of notes in circulation and the price of bullion, or of other commodities.

His experience convinced him that gold was frequently exported to pay for an unusually large importation of corn, without suffering any fall in value, and he refused to shut his eyes to these facts. He lacked the power of generalising, by which Ricardo was so eminently distinguished, and consequently the earlier volumes of his "History of Prices" are simply a record of facts, which he is unable to explain; and it was not till he published his fourth volume, many years after he had taken up the subject, that he was able to show the essential difference between inconvertible notes issued by Government, and those issued by a bank, consisting in the fact that a Government can issue as many as it chooses, while a bank can only issue as many as its depositors require. On this account bank notes can never fall in value to any great extent, unless peculiar circumstances of commerce require a very large export of gold, and in this case it is gold which has altered in value.

Of all treatises on the science, the late Mr. Mill's "Principles of Political Economy" is probably that which is best known to the reader. His arrangement, which is based on that of Say, is extremely convenient; and the interesting discussions of political and social questions, with which the work abounds, have secured for it a great and lasting popularity among a much larger class of readers than could be interested in merely scientific expositions. He has acted towards Ricardo somewhat the same part Playfair acted towards Hutton: he has been his interpreter to the public. He has taken Ricardo's abstract principles, and found facts to illustrate them, so that even where he has not proved Ricardo to be in the right, he has enabled us to see what he meant, and how the error may be detected. Mill objects to Adam Smith's theory of supply and demand, that there can be no equality or any relation between things so different in kind as a desire and a quantity of goods. He therefore defines demand as the quantity of goods desired by persons able to purchase them; and says, that the market value, or price of an article, is such that the quantity which men are willing to purchase at that price is just equal to the quantity which is offered for sale at that price. In like manner, he says that wages do not depend upon the proportion between the whole number of labourers and the capital of the country, but between their number and that portion of capital which is devoted to the payment of wages, called, for shortness, the wages fund. During the last twenty years there has been much con-

troversy respecting the ability of trades unions to raise the rate of wages. Those who have denied their power to do so, have appealed to Political Economy in general, and the theory of the wages fund, in particular, in support of their views. Wages, they say, can only rise if the fund be increased, and as a trades union produces nothing, it cannot increase the fund, nor the rate of wages. Those who contend that trades' unions can raise wages, adduce numerous instances in which they have actually risen after a strike, and say that facts prove them to be right, whatever theories the closet-student may choose to adopt.

Thus there have been occasional mutterings against the wages fund theory; but they did not take a definite shape until Mr. Francis D. Longe published, in 1866, his "Refutation of the Wage Fund Theory," in which he showed that the theory, when closely examined, amounted either to a truism or to a falsehood. It either meant that the average rate of wages was the total amount paid, divided by the number of persons who received them, which is a truism, or it meant that the average rate was the total amount divided by the number of persons who offered themselves for hire, which is a falsehood.* A second edition of the pamphlet appeared in 1869, but it never attracted much attention; and the credit of overthrowing the theory has been engrossed by Mr. W. T. Thornton, who, as so frequently happens in the progress of science, made the same discovery independently and simultaneously, having first propounded it in the "Fortnightly Review" in 1866, and subsequently embodied it in his work on labour in 1869. His work was better fitted to attract attention by the more interesting nature of its subject, which is an account of the various means which had been adopted for raising the condition of the working classes; but it is also superior to Mr. Longe's pamphlet, from a scientific point of view, for it attacks the whole theory of supply and demand, which Mr. Longe accepts. Mr. Thornton, being unable to reconcile the theory of the wages fund with the fact that wages had often been raised after an actual or threatened strike, set himself seriously to work to examine the whole theory of supply and demand, and the result of his inquiry is, that he has proved the theory to be utterly unsound. He has shown that far from agreeing with the theory, the actual facts of trade are wholly at variance with it, and it scarcely ever happens that an article is sold at a price which equalises the demand and supply in the sense which Mill has given to those terms. His work has been the subject of much criticism, and he has availed himself of the circumstance to restate his argument in a second edition, in such a form as to defend it against all objections.

* Pages 19—24.

He has now fairly clenched it, by showing that every tradesman fixes a price at which he will sell either a single article or the whole of his stock, but that the quantity demanded is only in very exceptional cases equal to the quantity offered for sale. In the same way, there are always many men who are willing to work at the rate of wages which others are receiving, but the rate is not lowered to the sum which would enable them all to receive a share of the fund. In its rise, progress and decline, the theory of supply and demand, has exhibited the same phases as a theological doctrine. Papal infallibility was accepted by Catholics, who never thought about its meaning; but as soon as it was strictly defined and formally enunciated, it encountered vigorous opposition. Supply and demand, in the mouths of commercial men, is a mere phrase which saves them the trouble of thinking, and as it conveys no idea, it encounters no resistance. Mill has done the work of the ecumenical council, and Mr. Thornton that of Dr. Döllinger. Thus we arrive at a negative conclusion, for Mr. Thornton has not offered any explanation either of market value or of wages. I shall endeavour, in the following work to contribute something to a more correct explanation of the subject of value, and more particularly of wages; but it will first be necessary to devote a few chapters to the subject of production. Of course I have been unable in this sketch to detail all the contributions which different writers have made to different branches of the science, many of which I shall acknowledge in their proper places, but the subject of value forms such a fundamental part of the science, that no great step can be made in advance without some improvement in this department, and the object of the foregoing narrative is to enable the reader to comprehend the position at which it has now arrived.

BOOK I.—PRODUCTION.

CHAPTER I.—WEALTH.

NATURE OF WEALTH—DESIRE FOR WEALTH—AVERSION TO LABOUR—FALLACY OF OVER PRODUCTION—MEANS OF ESTIMATING WEALTH—ELEMENTS OF PRODUCTION.

BEFORE explaining the laws which govern the production of wealth, it is necessary to explain what wealth is. The subject is so familiar that an explanation is hardly needed; but it is necessary to caution the reader against some mistakes which are liable to occur when the term is used without much thought being bestowed on its meaning.

Wealth consists of all articles, the possession of which affords pleasure to anybody. It is sufficient to enumerate food, clothing, houses, carriages, books and pictures, to show what is meant, but a complete catalogue would be almost infinite. Some writers are of opinion that the air we breathe ought not to be considered wealth, and some think that the skill of artificers ought to be considered such, but there is in reality no difference of opinion between those who take opposite sides in this controversy, and it is not worth while to discuss it here, for a strict definition of a term in popular use seldom conduces to clearness of exposition. Mr. Ruskin, indeed, contends that a strict definition of wealth is necessary to a proper comprehension of the science, and says that to omit it, is as fatal a mistake as it would be in astronomy to omit to define the difference between fixed and wandering stars. But even his own illustration fails him, for no line can be drawn between these two kinds of stars. Many of those which are called fixed are known to move, many others are supposed to, and, as some astronomers think that the whole stellar system revolves round a centre, it may hereafter be decided that no stars are really fixed, without in the slightest degree diminishing either the truth or the importance of astronomy. I shall never, when I can help it, give to a word a different meaning than that which it usually bears, because it is sure to create confusion in the reader's mind, and the definition of wealth given above will be sufficient for my purpose. But there is so much confusion in regard to the question whether money is wealth, that a few remarks on the subject may

not be deemed out of place. In the first place, it is necessary to say that money alone does not constitute wealth. I have described in the last chapter how the contrary belief was once universal, and how it has gradually lost ground. The rulers of England, who prohibited their subjects from exporting gold or silver, committed the mistake of supposing that men only produce food and clothing in order to obtain money, but in reality men only desire money in order to exchange it for food, or clothing, or some other article. They desire food in order to satisfy hunger, clothing to keep them warm, and other things for various purposes. So far as gold and silver are of use in making watches, spoons, or other useful articles, they are desired, for their own sakes; but when made into coin they are only wanted in order to be exchanged for other things. Hence arises the important distinction between money and other kinds of property ; but while an increase of the quantity of any other thing is always a benefit to the world, an increase of the quantity of money is no benefit at all. I shall endeavour to show hereafter that the gold discoveries in Australia and California have reduced the value of gold in England by about one-third, and this is only a benefit in so far as it enables us to obtain plate and watches, etc., by a smaller expenditure of labour. In so far as it obliges us to use a greater number of coins in paying labourers or tradesmen, it obliges us to carry greater weights, and is a disadvantage. Mr. Seyd, in a work* to which I shall often have occasion to refer, speaks as if the wealth of France had been increased by the substitution of gold for silver in her coinage, which was the consequence of the gold discoveries in California and Australia. But though gold is more precious than silver, it by no means follows that the total value of the currency was increased by the change, the simple effect of which was that the French used a small quantity of gold to do the work which had been done by fifteen times the weight of silver. It was more convenient for the French to have their coin in a less bulky form, but their coinage was estimated at about 2½ milliards before the change, and was probably about the same afterwards ; and, even if it was greater in amount, the increase was in no way an increase of wealth. Mr. Seyd also supposes that the wealth of England would be increased by the adoption of a double standard, that is, by making silver coin as well as gold legal tender to any amount, which would, he thinks, increase the quantity of coin in circulation. This is open to the same objections ; first, the total value of the coin would not be increased, for no more could be struck than were required by the extent of our trade, and, secondly, if it were increased, our

* "Bullion and Foreign Exchanges." Effingham Wilson. 1868.

comfort would be in no way increased. Humboldt has fallen into the opposite error of supposing that the precious metals are not wealth at all, and writes as if it was a delusion on the part of the people of Mexico, to believe that they could obtain wealth by working their silver mines, instead of developing agriculture and manufactures. The mistake lay in overlooking the fact that Mexico exported silver, and obtained in exchange manufactured articles, which increased its wealth. It would not have done so unless it had found it more profitable than manufacturing at home.

The fundamental proposition on which I shall base most of my arguments, is that every one desires to obtain wealth by the least possible amount of labour. This is an induction from experience, which testifies so strongly and so frequently to its truth that it can hardly be disputed. Food is one of the elements of wealth; and all persons desire food except those who are about to commit suicide, who may be safely left out of account. Nor is food the only thing which is an object of universal desire. Although clothing is dispensed with in some parts of the world, shelter is always required, and houses of some sort are constructed, unless there are natural caves which can fulfil the same purpose. If we reflect at all on the conduct of the men and women whom we see around us, we see that the greater number of them are engaged in some trade or profession which they have adopted in order to obtain a living. If we look at the much smaller number who are entirely supported by the labour of others, without performing any themselves, we see that they too desire many comforts and luxuries, which they think themselves fortunate in being able to procure in exchange for their money, as well as some others which they regret they are not able to purchase. There are, indeed, a few who do not desire an increase of their fortune, and who give away the larger portion of what they possess; but even they like to enjoy some moderate amount of comfort, and their wealth affords them the pleasure of being able to benefit others. There are some who regard it as a duty to forego the enjoyment of wealth, but even they desire so much of it as is necessary to satisfy the simplest wants of nature. The fact that numerous monasteries exist, and have existed, in no way militates against the truth of the proposition.

In the first place, the monks are careful to provide themselves with food, clothing, and shelter, and with such articles as they require for the performance of religious ceremonies.

In the second place, history furnishes innumerable instances in which they have indulged their desires for comforts and luxuries which were forbidden by their vows. In the third place, where their vows have been

kept, the fact has always been regarded as a proof of the enormous power of religion, thus showing that men always believe the desire of wealth to be active and powerful, although it may be overcome by other motives. Those who profess to despise wealth use the term in contradistinction to poverty, and do not mean they do not desire any of those things that satisfy the primary wants of nature. There is scarcely an individual in the world who does not form some wish which he is unable to gratify, on account of his being unable to afford the expense, or because the means of satisfying it have not yet been discovered.

When we say that individuals or races have no desire to obtain wealth, all that we mean is that they do not care to labour for it, but every one likes to enjoy the fruits of the labour of others. The pain of hunger and thirst is so intolerable as to overcome the unwillingness to labour in all who are unable to obtain food and drink without working for them, but no one will labour even to procure these if he can persuade or compel others to do it for him. With regard to other objects, which it is less painful to be deprived of, we are always obliged to balance the pleasure anticipated from their possession against the inconvenience of working to obtain them, and to decide whether they are, as we say, worth the trouble. In civilised countries men commonly work for a longer time and more constantly than is usual among uncivilised races, but this is not because the latter do not desire wealth, but because they object to labour. The Dyaks of Borneo can hardly be induced to labour for many hours together, but they have no objection to making their women labour all day at the most fatiguing operations, such as grinding corn, and carrying heavy weights for their husbands and brothers. Uncivilised races in general show an incurable fondness for pilfering anything that comes in their way, and this trait forms the common subject of complaint with civilised travellers in all parts of the world, and shows that it is not because they object to wealth, but because they object to labour, that they do not produce these comforts and luxuries for themselves. This aversion to labour, which is common to all mankind, produces good and evil effects according to the variations of personal character. On the one hand, it is constantly urging men to discover new methods of abridging labour, and thus greatly increasing the stock of human enjoyment; but, on the other hand, it is always urging men to appropriate the products of the labour of others, either by making them slaves, or robbing, or even murdering them.

But whether for good or for evil, the feeling undoubtedly exists; and as the desire of wealth is also universal, it follows that all men desire to obtain wealth by the least labour possible, and this proposition may be safely taken as a basis for the science of Political Economy.

From the fact that this aversion to labour is universal, it follows that there can be no such thing as permanent over-production. If we look at a single trade, we find that those who are engaged in it frequently produce more than they can sell at remunerative prices, and that the market is consequently "glutted," and many traders ruined. This has frequently happened in England when the harvest has been unusually abundant; the farmers have found themselves unable to dispose of their corn at such prices as will allow them to pay their rents, and have been obliged to use wheat for feeding cattle. The cotton manufactures of the North of England frequently exhibit similar phenomena, as do also the shipbuilding and other trades.

The most celebrated instances have been those which have followed on the opening of a new trade between two distant countries. When, in 1806, the English were for the first time able to trade direct with Buenos Ayres, they formed the most extravagant expectations of its capacity for purchasing their goods. Not merely did they send skates, stoves, and warming-pans to a country where they were never required, but they sent such enormous quantities of all sorts of goods that they were unable to warehouse them, and were obliged to leave them on the beach. After the discovery of gold in Australia in 1851, the high prices which prevailed there gave rise to a large exportation from Europe of all sorts of goods, which continued long after it had ceased to be profitable, and on such a scale that large quantities of brandy were sold in Melbourne for one-tenth of the price which they had cost in London, and many cargoes were unable to meet with any warehouse accommodation, and were spoilt by exposure in the open air. By such facts as these, some economists have been led to suppose that there is a natural tendency to over-production in all trades, and that there is some danger that an enterprising people will produce more of all sorts of goods than they can use; but this is to suppose that men will work without an object, while, in fact, they only produce in order to gratify their wants, and will soon leave off producing when they have got more than enough. Wheat may be superabundant for a single year, because farmers cannot tell beforehand how great the product of their labour will be; but if they find that for two or three years running they produce more wheat than is required, they sow less of that grain and more of something else. The case of Buenos Ayres has been cited by M. Louis Blanc as proving that England was suffering from over-production, and as showing the shifts to which we were obliged to resort in order to find a market for our surplus produce. But we did not send our goods to Buenos Ayres because we did not know how else to get rid of them; we produced them in order to send them there,

because we thought that we could obtain in exchange the various comforts for ourselves. If we had known that we could not do so, we should have produced at home the things which we wanted. Since 1806 our wealth has increased enormously, and we are still as far as ever from being able to produce all that we want. M. Louis Blanc himself draws a melancholy picture of the poverty which prevails among the lower classes in France and England; and, so long as such continues to be the case, it is idle to talk of our having produced more than we want, and if the time should come when there were no human wants unsatisfied, then human beings would cease to labour; and, in either case, over-production is impossible. Although this fallacy has been frequently exposed, it is perpetually re-appearing in different forms, among which may be here specified the belief that our colonies are useful because they provide a market for our exports; as if we had more goods on hand than we knew how to dispose of, and were obliged to beg other countries to take them off our hands.

If we wish to know which is the richer of two individuals living at the same time and place, we have only to ascertain the quantity of money which each possesses or can command. If we find that one has twice as much money as the other, we may safely infer that he can procure as much material wealth as the other, and an equal quantity in addition. But when two persons live in different countries, or at different periods, it is not so easy to make a comparison, because the same amount of money would exchange for different amounts of other things in India and England, or in the time of Henry VIII. and the present time. We could ascertain their relative powers of obtaining any one commodity; but if one commodity is cheap in the one case and dear in the other, and if the case is reversed in regard to some other commodity, we have no satisfactory test by which to decide between them. If we wish to know whether a man who has 4,000 francs a year and lives in London is richer than one who has 3,000 francs a year at Newcastle, we have to take into account the prices of numerous articles which vary in opposite directions. If we find that coals are cheaper at Newcastle, but that London is better provided with shops for the sale of silk goods and of jewellery, it is difficult to decide between their relative advances. We can see that if the Londoner went to Newcastle, and took his money with him, he would be richer than the other, but not which is the richer in the case supposed. Still more difficult is it to say which is the richer of two countries such as France and England. We know which has the larger population, and perhaps this is the best test which we can adopt; but we ought to know, in addition, the quantity of wealth possessed by each individual. We might form an

estimate of the money income of all the inhabitants, but as the value of gold is not the same in both countries, this would not tell us the amount of their wealth. The agricultural population forms in France a much greater proportion of the whole than it does in England, but this does not prove that France has a smaller surplus to dispose of after supplying herself with the necessaries of life. Much of the agricultural industry of France has for its object the production of wine for exportation, while in England we export cloth and other manufactures, and import corn and wine and other things which France produces for herself, while she obtains manufactured articles from abroad. Wealth makes more impression on the eye when concentrated in large towns, but there may be quite as much dispersed through the rural districts of France as is collected in the towns of Lancashire and Yorkshire. Of course, a greater density of population is attainable in a manufacturing than in an agricultural country; but in comparing two countries we must look to the actual numbers of the inhabitants, and not to the proportion which they bear to their extent. The amount of foreign commerce which a country possesses is but an imperfect test of its wealth. The commerce of Bremen is made to appear very large, because Bremen is a partially independent state, and whatever it buys or sells in the adjoining country is reckoned amongst its imports and exports, while no statistics record the trade between Liverpool and the rest of Lancashire. When a country is very extensive, and contains, like the United States, every variety of soil and climate, it may supply by internal trade many wants which smaller countries can only do by foreign commerce, which may explain why the protective tariff inflicts so little injury on that thriving country; for it in no way restricts the freedom of intercourse between the different states of the Union. As the commerce of America is made to appear smaller, so that of England is made to appear larger than it is, because the greater facilities for warehousing goods which are afforded in English ports induce merchants to deposit goods in our warehouses which are not intended for our consumption, but are merely left here until a favourable opportunity arrives for shipping them to the Continent. Thus it is difficult to arrive at a certain conclusion; but for practical purposes our best course is to obtain a comparison between the degrees of comfort enjoyed by the labouring classes, and if these be equal or unknown, to assume that the more populous country is the more wealthy.

In order to produce wealth three things are necessary. There must be labourers to work, food to maintain them while working, and materials for them to work upon. These may be briefly summarised as labour, capital, and land.

It is hardly necessary to say that labour is necessary, for, with the exception of air, there is nothing which we can attain without effort. Continuous exertion is required in order to collect wild fruits in sufficient abundance to support life, or to catch fish in the sea, or wild animals in the forest. This exertion will only be made in the hope of gaining a reward, and if the person who makes it does so in order to supply food for others, they must offer him a reward for his labour; or, in other words, must pay him wages.

If labour is undergone for some other object than procuring food, or if, though that be the object, it is carried on for many days before any food is procured, it is necessary that either the labourers themselves, or some one else, should save up a stock of food to support them until the work is completed. This stock is called capital, and the person who saves it receives a reward, which is called profit. Under the third head, of land, are included all materials and natural forces which are placed at the service of man, without having been produced by him. The earth provides us with forests, from which we can obtain timber without more labour than that of felling trees; with wild animals, which we have only to catch; and with soil, which will multiply six or twenty fold the seed which we bury in it. The rivers supply us with motive-power, which enables us to work our mills with a very slight expenditure of labour, and they greatly facilitate our means of locomotion. It frequently happens that an individual has appropriated a portion of the earth, which possesses some qualities which make the production of wealth more easy in that than in other places. When this is the case, he receives a share of the product, which is called rent.

The income of every individual is either rent, wages, or profit, unless it be derived from taxation; but almost all taxes are derived from one or other of these sources. The laws of the distribution of rent, wages, and profit will be discussed in the second book, while the present will be occupied with remarks on labour, capital, and land, which are the elements of production.

CHAPTER II.—LABOUR.

PRODUCTIVE AND UNPRODUCTIVE LABOUR—CONSTANCY—DIVISION OF LABOUR—MACHINERY—SCALE OF PRODUCTION—PROGRESS OF IMPROVEMENT—FREEDOM OF LABOUR.

THERE are few human wants which can be supplied without labour. There are some substances which may be obtained in great abundance by the simple labour of collecting them, such as wild fruits, sticks, and water, but there are others which require that more labour should be bestowed upon them before they become fit for our use. Man can create nothing, but can only move portions of matter into different positions, in which they become more useful than in those in which they are found. This has been admirably illustrated by Mill, who tells us that man simply moves the axe through the tree, and the force of gravitation makes it fall down; that he moves the saw through the wood, and the force which compels a soft substance to give way before a hard one makes the wood split into planks; that he moves the seed into the ground, and the force of vegetation makes it germinate. Much of the labour of mankind is thus constantly employed in moving substances into such positions that they can be used as human food. The farmer sows the wheat, and the forces of vegetation make it yield a greater quantity, which is removed from the place where it is grown, and separated from the plant to which it was attached. It is then taken to a mill to be ground into flour, then the flour is taken to the bakery, mixed with water and other substances, and made into bread; and, lastly, the bread is taken to the houses of those who are to eat it. The whole may be considered as one operation, the object of which is to place particles of oxygen, carbon, &c., in a place where they can be used to satisfy hunger, and it is futile to enquire which part of it is the most useful. The sowing is of no use without the reaping, nor the reaping without the threshing, nor the threshing without the grinding, nor the grinding without the baking, nor the baking without the delivery to the consumers. But there has always existed a prejudice against retail dealers, which regards their labour as useless, because they add no additional quality to the things which they receive before they again part with them. This prejudice appears in Aristotle in the somewhat curious form of the proposition that retail dealers desire, not material wealth, but money; and a desire for money being insatiable, and not like

the desire of wealth, limited by our capacity for enjoyment, retail dealers can never be satisfied, and are not labouring for a proper object. In a different form it appears in Mill's remarks on co-operative societies. Although he says in one place that the labour of the carrier is useful, because he confers upon goods the quality of being in the place where they are wanted, yet he subsequently speaks of producers as being more useful than distributors. "Distributors," he says, "differ from producers in this, that when producers increase, even though in any given department of industry they may be too numerous, they actually produce more, but the multiplication of distributors does not make more distributions to be done, more wealth to be distributed; it does but divide the same work among a greater number of persons, seldom even cheapening the process."* Now, in what does the difference consist? If producers are too numerous in any trade, some goods must be produced which are not required, and this cannot be considered as an advantage, though it may be called an increase of wealth. If distributors are too numerous, some goods will be distributed which are not required, and this is no advantage either.

How is it better that corn, which nobody wants, should be placed in a stack than that it should be stored up in a corndealer's warehouse? If when producers are spoken of as being too numerous, it is meant that there are a large number employed in doing what could be done by a smaller number, then their case is exactly similar to that of distributors, and a better organisation of industry would have the same advantage in both cases. Every now and then some new scheme is devised for saving the expense of the tradesman's profit, but when the excitement has cooled down, people find that they can only dispense with the tradesman's labour on the condition of performing more labour themselves, or of suffering some other inconvenience. In the few instances in which co-operative societies sell things cheaper than private tradesmen, it will be found they require their customers to carry the goods home, or they refuse to give credit or to call for orders. There does not appear to be the slightest probability that they will ever supplant private shops, because there will always be a large number of people who will rather submit to a slight increase of price than to an increase of trouble.

It is not the function of Political Economy to decide what kinds of labour are useful, and what useless. There is no labour, from that of writing a poem to that of working a treadmill, which does not afford gratification, either to the person who performs it, or to the person who causes it to be performed. But there has been considerable discussion

* Polit. Econ. IV. 7, 6. Vol. II., p. 372. 6th Edition.

as to which kinds of labour ought to be called productive, and which unproductive. The question is not one of much importance, but it appears to me that the idea conveyed by the words would be best expressed by applying the term productive to all labour which is employed in producing the necessaries of life.

If we thus regard the farmers, butchers, bakers, etc., as supporting the whole population, it may enable us to understand how they can bear the severe burthens of a war or large Government expenditure. We may regard them as producing enough to support themselves and a large number of landlords, literary men, doctors, and artizans engaged in manufacturing articles of luxury. When a war breaks out, they have to support a large number of soldiers, and many of the artizans who were employed in producing articles of luxury, but are now employed in making guns and other weapons. When a large Government establishment is kept up, the productive classes have to support a large number of clerks, instead of supporting others engaged in some occupation not directly connected with the supply of food. Thus, when France was invaded in 1870, the productive labourers were obliged to support the French armies, amounting to a million men, and, to some extent, the German armies as well. But they escaped the burthen of supporting a number of landlords, stockholders, journalists, and other persons, who fled to foreign countries, and many of those who served in the army during those fearful months had been previously supported while pursuing some peaceful occupation, or none at all. This may explain how the people were able to bear their burthens, which, even after these deductions had been made, were still very great. Though the burthen of the productive classes was not so heavy as might at first sight be supposed, the unproductive classes were exposed to terrible privations by the stoppage of dividends on shares in public companies, by delays in the payment of rent, by the destruction of their chateaux, etc. We may justly speak of a large staff of Government officials as a burthen to a country; but it will be well to bear in mind that, if there were no Government at all, the productive classes would still have to support a large number of unproductive consumers, and that the change from the country gentleman to Government clerks is rather one of form than of substance.

There are striking differences between the efficiency of labour in different countries. These are due to differences in two circumstances, viz., the constancy and the knowledge with which it is applied. In the matter of constancy English workmen enjoy an honourable pre-eminence. The late Mr. R. Jones tells us that the labour of two Englishmen was considered equal to that of six Russians, or four Irishmen. He accounted

for this by saying that Englishmen had to work under a master, who insisted on their working continuously; but this is a very unsatisfactory explanation. In the first place, the superiority of Englishmen to Russians is quite as marked in those occupations in which the latter have to work under a master, as in those in which they work for themselves. Mr. Longe mentions that he has heard the owner of a large factory in Russia say, that he would rather employ one English mechanic, at much higher wages, than seven Russians. In the second place, there is no reason why men should work harder for a master than for themselves. If it were so, the most efficient labour would be that of the slave, which is known to be the least so. Although the slave can be made to work for a great length of time, he cannot be made to do so when the overseer's eye is not on him; and the same may be said, though to a less extent, of prison, workhouse, and even hired labour. The most powerful motive for industry is not the fear of dismissal, but the hope of remuneration; and while hired workmen strike for a reduction of hours to ten or nine a day, independent workmen will work for twelve or thirteen. Employers can only obtain the customary amount of work from their men; and Russian capitalists would be as powerless to obtain more as English employers would be to prevent drunkenness among their men, even if custom and education did not teach them to regard the ordinary amount of work done as the natural one. The difference must be accounted for in some other way, and I should be inclined to say that the Irish and Russians had not yet imbibed a taste for many comforts which the Englishman regards as indispensable, and that they will not work more than enough to satisfy the pressing wants which they already feel; but they will, in time, acquire fresh tastes, and will then work long enough to earn the means of gratifying them. In an uncivilised country, men have few wants so imperative as to overcome their aversion to labour. As new methods are discovered of making their labour more productive, they become acquainted with new articles which create new wants, and they work harder in order to satisfy them; as production is still further improved, they are enabled to satisfy their wants with less labour, and at the period at which we are now arrived, they choose rather to reduce the hours of labour than to acquire fresh luxuries.

Wakefield supposed that in a colony men could not be induced, without some form of compulsion, to labour with the constancy requisite for the construction of a railway, or other great public work, because if left to themselves they would frequently leave their employment in order to begin farming on their own account.

He defined a colony as a country receiving emigrants, and expressly included the United States in the category. He had no difficulty in

showing that slavery existed in many colonies, and that in others its place was supplied by convict labour, and other forms of compulsion.

But there was one fact which was fatal to his theory, viz., that great public works were executed in the northern United States without compulsion in any form. Instead, however, of abandoning his theory, he endeavoured to escape the logical conclusion by saying that these works were executed by negroes and Irishmen, and that "The freed negroes and their descendants of some of the States of North America, which either never permitted or have abolished slavery, are virtually a sort of slaves, by means of their extreme degradation in the midst of the whites, and the hordes of Irish pauper emigrants who pour into North America, British and American, are in a considerable proportion, virtually slaves, by means of their servile, lazy, reckless habit of mind, and their degradation in the midst of the energetic, accumulating, prideful, domineering Anglo-Saxon race."* It seems to have been Wakefield's opinion that the most profitable employment for colonists was that of working under a capitalist in the construction of a great public work, but that they were perverse enough to think that they could do better by setting up as farmers on their own account. In order to prevent them from doing so, he proposed to charge such a price for waste land as would prevent labourers from obtaining any until others had come to take their places in their former employment. In order to justify this obstruction to the natural course of things, he said that it was the only alternative to slavery, and as he found that these works were executed in America by free labourers, he said that they were virtually slaves. The fact is, that if these works could not be undertaken without some restriction being imposed on the free choice of the labourers, they ought not to be undertaken at all, and if these consider that agriculture is more profitable, this is sufficient proof that it is so, and the railway or other work in question ought to be laid aside until its promoters are able to give such a rate of wages as will enable them to obtain as many labourers as they require. It is this preference of hired to independent labour which forms the basis of that strange collection of fallacies which has been called, as if in irony, the Wakefield System.

The principal agencies in the improvement of production are the division of labour and the discovery of new means of utilising the forces of nature. When many persons are employed in producing articles which have to undergo many different processes before they are completed, it at once occurs to them that they can save time by confining one person, or set of persons, to each process. Examples of this division

* View of the Art of Colonisation, by E. G. Wakefield. 1849. p. 175.

of labour are furnished by every manufactory, and, indeed, by every place in which large numbers are employed. Take, for instance, the mint. One set of men are employed in melting the metal, and pouring it into the moulds. In another room other men take the bars formed in the moulds, and place them between rollers, which compress them until they are reduced to the required thickness. In another room circular pieces, called "blanks," are punched out of the now thin strips of metal; and, in another, the blanks are annealed or softened, so as to be capable of receiving an impression. They are stamped in another room, where they become complete coins, and they are then taken to another room to be weighed, and all that are above or below the right weight are again melted down. It is obvious, that by assigning each process to one set of workers much time is saved which would otherwise be spent in walking from one room to another, and in changing their tools. Adam Smith supposed that men who have to change frequently from one kind of work to another are apt to contract a habit of loitering, but the examples of gardeners and cooks are sufficient to prevent us from attaching any weight to this argument, and even without this, the advantage of division of labour in saving time is so obvious that it is always adopted whenever many persons have to work together, either in their professional occupation or for temporary purposes of pleasure or necessity. When the division of labour has continued for any length of time in any employment, another advantage presents itself, viz., the increase of skill which results from the confinement of each person to one occupation. Each operation makes a demand on some particular muscles, or on one particular sense, and these are by constant practice so much improved, that the workman can do, with very little effort, many times as much work as the novice can by the greatest exertion.

The strength of a blacksmith's arm, the rapidity with which an accountant adds up several rows of figures—the ease with which a porter carries a weight which an ordinary man can hardly lift—are instances which will occur to every one. As every one desires to obtain wealth by the least possible labour, a system which so largely increases the power of production by enabling each individual to produce more, is sure to be maintained wherever a sufficient quantity of an article is required to make it worth while for many persons to devote themselves to its production.

These two advantages, the saving of time and the increase of skill, were both pointed out by Adam Smith. The late Mr. Babbage* has pointed out another advantage, that it enables us to procure the whole

* See his "Economy of Machinery and Manufactures," chap. 19.

benefit of each person's skill, whether natural or acquired. There are some processes which are so simple that children are employed to perform them, while there are others in which great skill is required. This is particularly the case in the final stages of production, where error may lead to spoiling of the article, and thus render useless all the work previously done.

If the corn be not reaped before it is spoiled, all the labour bestowed on ploughing and sowing is thrown away; if the coin be not correctly stamped, all the labour of melting, rolling, and punching has been wasted.

Babbage considered that this was the most important advantage of the division of labour, that it enabled those who have sufficient skill to perform the most delicate operations to devote their whole time to them, and to leave the more simple work to those who are fit for nothing else.

He grounded this opinion on the different rates of wages which are paid to skilled and unskilled labourers, and I cannot discuss it fully until I have explained the causes which determine the rate of wages. I can only say here, that he seems to me to have fallen into an error, which caused him to exaggerate its importance, but I do not question its truth. It is impossible to say to what extent differences of skill are natural or acquired. It is certain that long practice is necessary in order to acquire proficiency in any art, whether mechanical or intellectual. An apprenticeship of seven years was formerly thought necessary to qualify a mechanic for becoming a master, and setting up a business of his own. Those who have attained distinction as debaters in Parliament have, in almost all cases, acquired their knowledge of the tastes and feelings of the assembly they addressed by constantly taking part in the debates. Fox said that during a whole session he spoke every night but one, and only regretted that he had not spoken on that night also. In order to make a scientific discovery a man must study the works of those who have preceded him, and every artist must execute numerous sketches before he can produce a great painting. But after all allowance has been made for the different amount of practice, there still remain differences between individuals which, as we cannot account for them, we call natural or innate. There are persons who think that genius is only the capacity for taking trouble; but even so, some persons appear to possess this capacity in a greater degree than others. There are some trades which almost anybody can learn, but two men who spent equal time in learning are not able to do their work with equal neatness or rapidity. Many men can acquire sufficient knowledge of a science to qualify them for a professorship, but not all of these are able to make important discoveries. As soon as a division of labour commences, it is

perceived that some do their work better than others, and that labour will be saved if each sticks to that which he does best, and if those who fail in one branch try another, until they find one that suits them. Thus, those who show a greater aptitude for one sort of work acquire by practice a still greater superiority, and those who do not practise it become less and less capable of performing it, and the process which Mr. Darwin has so happily termed natural selection, preserves and exaggerates the slight differences which are all that at first manifest themselves. In every village we may find a butcher, a baker, a blacksmith, and *the* shop. If a village increases in size, the shop is required to furnish a greater quantity of goods, and for some time the shopman manages to increase his store in proportion, but after a time it occurs to some one to set up another shop, and sell, perhaps, only grocery.

Those who live nearest to the new shop find it more convenient to go there than to the old one, and the grocer, by concentrating his whole attention on the subject, is able to sell better tea and sugar, etc., than the other tradesman who has so many things to attend to, and gradually draws to himself that portion of the business. The same process is repeated; one man setting up as a cheesemonger, another as a draper, and so on, until the bare list of trades in the "London Post Office Directory" would be sufficient in itself to fill a volume. The advantages of divisions of labour are extremely great, and the progress of society is marked by the extent to which it has been carried; but it also possesses some disadvantages. In some trades continued application is apt to bring on some peculiar disease, which might never attack a person who only worked at it occasionally. The fork-grinders of Sheffield are said, on an average, not to attain a greater age than thirty years; and many other operations connected with the manufacture of steel are extremely dangerous.

There is another more general objection to the division of labour: that it renders every class of society more or less dependent on every other, and that an injury to any one part is felt by the whole. The same is the case in the organic world. As a polyp may be cut to pieces and every piece become a perfect animal, while, with a man, the loss of a hand impairs the power of the whole body, and the loss of a head destroys life, so a tribe of Red Indians may be exterminated without any other tribe feeling the effect of it; while a disaster in any part of England is felt by the whole country, and the siege of Paris spreads misery into every corner of France.

Adam Smith attributed another advantage to the division of labour: that it led to the invention of numerous machines. He thought that a man whose whole attention was concentrated in one process would be

more likely to discover a better mode of performing it than if he had several to attend to. Certainly, it sometimes happens that a machine is invented by a man engaged in that very work which it is designed to abridge. Thus Mr. Pilcher, the head officer of the weighing-room in the British Mint, invented a file for reducing heavy blanks to the proper weight; and he also effected an improvement in Cotton's weighing machine which enabled it to separate those which were the proper weight from those which were too heavy, as well as from those which were too light. But there is no reason for saying that those who are confined to one operation are more apt to discover improvements than those who perform a great variety of operations. Adam Smith, indeed, says many machines are invented by "philosophers, or men of speculation," and, in admitting this, he abandons his own ground. Agriculture does not admit of much division of labour, because its different processes must be performed at different times, and yet a great number of tools have been invented to assist the labours of the farmer. The spade, the sickle, and the plough were invented in ages so remote that no record has been preserved of their first introduction, and in our own time the plough has received some improvement, and machines have been invented for ploughing, reaping, and threshing by the aid of steam power. The cause of the invention of machines is the desire so universally felt to save labour, which is quite as much felt in those employments where a man has to perform several operations as where he has to attend to only one. A carpenter has to make many different things, and we all know the number of tools which his basket contains, every one of which has been invented in order to save trouble in one or other department of his work.

Farmers are constantly at work introducing improvements, but the nature of their employment requires that they should be widely dispersed, and this is one reason why so long a time is required before new processes can come into general use. Another reason is, that it is impossible for the few who are the first to adopt a new method to raise sufficient produce to beat all the others out of the market, because to do so would require them to cultivate a very large extent of ground, which they are unable to procure, and even if they could, they would be unable properly to superintend its cultivation. In manufacturing industry the case is different, for a factory can be greatly enlarged, and he who introduces a new process can make so large a quantity of the article in question as very materially to interfere with the business of his competitors, unless they follow his example.

Babbage, in the work before referred to, has given copious illustrations of the advantages which are conferred on mankind by the invention

of machines. They enable one man to do what, without them, would require the labour of hundreds. The invention of gunpowder enables one or two men to blast a rock in a day, which it would take many men a long time to remove by breaking it away; and even taking into account the labour expended in making the gunpowder, there is still a considerable saving. Monkeys have been known to throw cocoa-nuts and other hard fruit at men who approached them; one monkey has been seen to hold a snake with one paw, and with the other take a stone and batter the reptile's head with it. There was a time when men had no other weapons than stones; but at length some one discovered that by rubbing two stones together they could be furnished with an edge which would render them more useful, either as missiles or for the purpose of striking. As continued practice brought greater dexterity, it became possible to make and use superior weapons.

After a time it was discovered that a stone could be thrown with greater force if it were placed in a sling, and whirled round before it was discharged. Then the cross-bow was invented, which enabled a weak man to send a bolt as far as a strong one; and after this, the next step was to introduce the expansive force of gas to do what had been done by the tension of wood and string. This was accomplished in the invention of the musket, and it had by that time been found more convenient to use lead than stones; and from the time of their invention to the present day, the gun and the bullet have been receiving constant improvements, and are doubtless destined to receive many more. Machines are also very useful in enabling a great amount of work to be done in a short time which would not be worth doing at all if it could not be done quickly.

The ancient Egyptians and Peruvians contrived to move enormous stones from the quarry to the place where a temple or a palace was building, but it occupied the labour of two thousand men for three years to move a single stone from Elephantine to Saïs, in Egypt, in the reign of Amasis. If it had been desired to complete the building in a single year, it could not have been done; but in our day cranes, rollers, and steam engines would enable us to do in a week what they required years to accomplish. Another advantage of machinery is that it enables us to secure uniformity in the articles produced. Of this an illustration is afforded by the art of printing. It is impossible that copyists should avoid all mistakes in copying a manuscript, and, consequently, when a book has been frequently copied by hand, the manuscripts are found to differ more or less from the original and from one another. These differences are well known to occur in copies of the works of classical

authors, of the Old and New Testament, and, indeed, of all books which were widely read before the invention of printing.

In printing, these variations are avoided, if only proper care be taken. Instead of a pen, types are used made in the shape of the different letters of the alphabet, and with these the whole work is spelt out. When this has been done, the types are inked, and are pressed upon hundreds or thousands of sheets of paper in succession. By this means every sheet receives exactly the same impression, and whatever errors there are must have been introduced when the types were "composed," that is, arranged in their order, and must be shared by all copies alike. Many such errors may occur, and frequently do so, especially in newspapers and other prints which have to be completed in great haste. The difficulty of settling the true text of Shakespere shows how many errors may creep in where no care is taken either to make the first edition a faithful copy of the author's manuscript, or to make the later editions agree with the first; but all the copies of the first folio are exactly alike, and the various readings are nothing to what they would be if Shakespere's plays had only come down to us in manuscript. Machines also enable us to do many things which we could not do at all without them. Without ships we could not cross the Atlantic, and without telescopes we could never have discovered many thousands of stars which are now known to us.

In order that division of labour may be carried to any great extent, it is necessary that production should take place on a large scale. It is not necessary that the producers should be brought together in large numbers in a single workshop, but only that the number of articles made should be so large that one man can find occupation for his whole time in performing a single process. The business of watch-making is divided among more than a hundred different trades, but those who work at them are not brought together in large factories, but work at their own homes, and even in the country. The astonishing cheapness of the German toys which are sold in London is due not only to the fact that the wood of which they are made is obtained for but a trifle more than the cost of felling the trees, but also to the extreme division of labour which is practised by those who carve and paint them; but they live, not in large towns, but in the forest where the trees are found. The wants of a village are so few, that it would be impossible for one man to find constant occupation by selling drapery alone, or grocery alone, and if several persons set up as drapers, grocers, cheesemongers, etc., the result would be a great waste of labour, because several persons would be employed in doing what could be done by one, and they would be wasting much time which might be spent in producing

something useful. Nor would they gain the chief advantage of division of labour, that of increased dexterity, for this result is only obtained by constant practice, which is wanting in the case supposed. This is one reason why so many of the conveniences of life can be obtained so much more easily in a large town than in a small village; but the town also has the advantage of making it profitable to employ more machinery. The expense of making a machine of any great power or complexity is always considerable, and its superiority to unassisted labour only manifests itself when, and in proportion as, a large number of articles are produced. It requires less labour to write out a copy of a book than to set up the types for printing it, and very much less than to make a printing-press. When, therefore, but one copy is required, it is found to answer better to have it in manuscript; but as the number increases, the cost of printing each one diminishes, because when the types have once been composed, the labour of stamping successive sheets is very small in comparison, and much smaller than that of writing out fresh copies. It is well known how the success of a newspaper depends upon its circulation, and how large an outlay must be incurred on first starting one, before it has attracted sufficient popularity to enable it to pay the expenses of printing. A higher price is always charged for new novels than for those which have acquired a great reputation, because the publishers do not know what will be the extent of the sale, and wish to secure themselves against loss by charging so much that the sale of a small portion of the edition will bring in enough to pay all expenses.

When a work has become so popular that a large sale may be confidently anticipated, the publishers can divide the expenses among the whole number printed, and therefore reduce the price. If a copyright treaty were concluded between this country and the United States it might, and probably would, have the effect of considerably reducing the cost of books in both countries, because both would be supplied from the same printing house, and the labour of composing the type would be gone through once instead of twice, and this saving of labour would be still more marked in the case of works which were furnished with costly engravings. The same principle may be illustrated in any department of industry. For several centuries our coins were struck by hand, one man holding the metal between the dies, while another struck the upper die with a hammer two or three times until satisfactory impressions were obtained.

Now a machine is employed which places the blanks in one die and brings the other down upon it with a force of 34,000 kilogrammes, which produces the impression at a single blow. It would not be profitable to use this machine unless a very large number of coins were made in a year, and it is probable that the method employed by false coiners

does not differ much from the ancient practice of the mint. Whether a large or small scale of production is preferable in any one trade at a given time and place, is always ascertained, where free competition is allowed, by the simple test of experiment, for if both methods are tried, that which is the better will prove itself to be such by enabling those who practise it to undersell the others. As a large market is required in order to render possible production on a large scale, it follows that small producers can always hold their ground when the market is but small. Some persons have a vague idea that great capitalists will in time swallow up all the small ones, but there is no more reason for such a notion than for a belief that the whole world will, in time, be absorbed in one town. A railway is only an advantage when there is an immense amount of traffic along the same route, and can never supersede the use of horses for conveying goods for short distances. When railways were first introduced, some people imagined that we should not want horses any more, but though they have superseded stage coaches wherever they have been introduced, they have greatly increased the quantity of goods conveyed from one part of the country to another, and a great number of horses are employed to carry the goods to the railway stations and from the stations to the houses where they are wanted. A railway requires high-roads and bye-roads to feed it, just as a town requires farms and villages to feed it, a fact which has been overlooked by the promoters of railways in Brazil and other backward countries, who have discovered by painful experience that there was not enough traffic in the country to furnish employment for them. Steamers in the same way can only be employed where the traffic is considerable, and sailing vessels are still employed in the less important branches of maritime trade, and rowing boats are still found most convenient where only a few individuals desire to make a short journey. There is still less ground for supposing that large shops will ever supersede small ones, for the very nature of distribution requires that the distributors should be widely dispersed, and it is obvious that the greater the size of the shop, the greater must be the area which it supplies, and the inconvenience to the customers who have to come to it. Shops, moreover, do not admit of much division of labour, and the only advantages of a large over a small one are that the men may be more fully occupied, and that large purchases can be effected with very little more labour than small ones, and thus a greater profit may be realised when the goods are sold again. The disadvantage is that it is more difficult to superintend a large shop, and a number of shop-walkers have to be employed to see that the others do their work properly.

Division of labour and machinery can, as above stated, be carried to a greater extent in those cases only where there is a large market to be

supplied, but whether this condition exists or not, there is a perpetual process of improvement going on. For a long time, the inhabitants of these islands had no tools except such as were made of stone, but at length some one discovered that better ones could be made of bronze, and bronze superseded stone, and was in its turn superseded by iron. Every person who makes a tool tries to make it as fit as possible for the use which is to be made of it, and the result is, that out of thousands of cases one occurs in which some slight alteration is introduced which enables it to do its work better.

The discovery becomes known to others besides the person who first made it, and as every one desires to obtain wealth by the least possible labour, it is gradually adopted by one person after another until its use becomes universal. The spade, the plough, and the harrow, all afford evidence of the gradual improvement which has led to their adoption, and the same may be said of the knife and the saw, and all tools which are used by carpenters or blacksmiths. Nor is it only in the improvement of tools, properly so called, that the eternal progress of improvement is to be traced. Before the dispersion of the Aryan races, some ingenious person had discovered the advantage of domesticating sheep and oxen, and thus conferred an incalculable benefit on the human race. It enabled them to procure food with much less labour and much greater certainty than hunting had previously done, and it enabled a much larger population to maintain themselves in the same territory.

The number of species, from the elephant to the silkworm, which are now employed in different parts of the world in satisfying human wants is very considerable, and is made up of contingents from all divisions of the animal kingdom.

A few years ago, a market gardener in Australia constructed an apparatus to enable a tame kangeroo to work an engine for watering his garden, and it is possible that his plan may be generally adopted in that country, and almost certain that many new species will hereafter be pressed into the service of mankind. He must have been a great genius who first conceived the idea of sowing the seed of the plant, and obtaining a crop where the earth did not supply it spontaneously. The introduction of agriculture enabled a much larger population to maintain itself on the same space of ground than could have done so either by hunting, fishing, tending cattle, or subsisting on the spontaneous produce of vegetation. But its chief advantage was, that it induced men to adopt a more settled life, and thus gradually formed more regular habits of industry. The Romans were a nation of farmers, and they were able to expel the Celts from the north of Italy, and what they took they kept, because they always colonised a conquered district with farmers who

clung tenaciously to the lands which they tilled, while it mattered little to the Celts to what pastures they drove their flocks. But agriculture when it was first introduced was of a rude and imperfect character, and yielded but a small product in comparison with what it does at present. Mr. Wallace tells us, in his valuable and entertaining work on the Malay Archipelago, that the Diaks, in Borneo, raise two crops in succession, and then leave the land fallow for eight, or even ten, years. Until recently, it was the general practice in Europe to let the land lie fallow one year out of three, but this is giving way before the system of rotation of crops, which greatly increases the total yield, though, of course, with the expenditure of greater labour. Other discoveries have been made relative to the manuring, drainage, and irrigation of the land, and new plants are constantly brought under and improved by cultivation, until at length the agricultural produce of England is estimated at seven times the amount which it had attained five centuries ago. In every branch of human industry the same progress is effectually taking place. That increased knowledge of the laws which govern the universe which is denominated the progress of science, is ever pointing out some new method of satisfying our wants with a smaller and smaller exertion of labour. The discovery of Watt enabled us to utilise the expansive force of steam, and has been the parent of a host of discoveries, by which this force has been made to accomplish an amount of work which must otherwise have required an immense quantity of human labour.

The discovery of the effect of an electric current on a magnetic needle has enabled us to transmit intelligence with a rapidity which would have appeared incredible to any one who lived before the discovery was made. I have thought it necessary to insist thus strongly on this point, because Adam Smith and other writers frequently speak of some countries as being in a stationary, or even a declining state. Whatever foundation of truth there may be for such a belief, I contend that every nation is perpetually progressing in this respect, that it discovers and adopts new methods of acquiring wealth by less labour. The progress of the Red Indians is so slow when compared with our own that we naturally speak of them as stationary, but I cannot doubt that the weapons and ornaments which they now use are superior to those which their ancestors used thousands of years ago. Nor, that if they were left to themselves, they would in the course of thousands of years work out a civilisation of their own.

Some of the tribes already practise agriculture to a slight extent, and would gradually improve it if left free to do so, but the experiment will not be tried, because another race much more advanced in the arts and sciences is appropriating their country and exterminating them, they

being unable suddenly to adapt themselves to a new mode of life. Progress must be slow in an early stage of society, but there is no ground at all for the theory which has been made to serve as an excuse for slavery and other abominations, that some races are incapable of improvement. Still less reason is there for applying the epithets of stationary, or declining, to such countries as Spain, Holland, or China. Spain does not occupy so important a position in the political world as it did three centuries ago, but this only shows that it has not moved on so rapidly as other countries, and not that it has stood still or gone back when compared with itself. The fact that railways and telegraphs have been introduced into it during the present century, would be sufficient in itself to show that the country is making progress, and it cannot be doubted that improvements have been effected in every branch of Spanish industry during the last three centuries. If Holland does not produce thinkers of such reputation as Grotius, Spinosa, or Vatel, it has none the less made or adopted discoveries which would have astonished those philosophers. Their ships are now propelled by steam, in cases where the fleets of De Ruyter would have been unable to move, and they have adopted many other modes of using steam power to shorten labour. Though China has not yet adopted the use of railways, it has received large quantities of English manufactured goods, in exchange for its tea and silk, and as it would not have continued the trade unless it found it profitable, it is evident that the increase of its trade with Europe has enabled it to obtain what it wanted with less labour than before. Travellers inform us that there is a considerable Chinese colonisation now going on both on the northern and western frontiers of the empire, and that this, of course, greatly enriches the districts, which a few years ago were little more than deserts, which proves that the country is advancing in an economic sense, whatever we may think of the decrepitude of the Chinese government.

Politicians imagine that it depends chiefly upon them whether a country shall advance or retrograde, but there seems to be no sufficient ground for assigning to them much influence either one way or the other. Previously to the 18th century the interference of Government in industrial operations was generally regarded as favourable, and even necessary to their efficient management. Quesney and Adam Smith have shown the erroneousness of this view, but they have fallen into the opposite error of exaggerating the evil effects of restriction and regulation. When they wrote, the Governments of France and England prohibited any person from engaging in many mechanical trades unless he had been apprenticed for a certain length of time to a master of that trade. They showed that these restrictions were both unnecessary and useless, because

if a mechanic did not know his business he would not be employed, and no length of apprenticeship could ensure his becoming a good workman. Since their time these restrictions have, for the most part, been swept away, but both here and in France some restrictions are still retained in regard to what are called "the professions." Though the Government no longer thinks it necessary to enquire whether a carpenter or a mason has learnt his trade before he tries to live by it, it still considers itself bound to see that physicians and lawyers have acquired some knowledge of medicine and law before it will allow them to practise. It is curious that Say, who generally approved of freedom in this respect, recommended the State to subject physicians and surgeons to an examination, on the ground that mistakes in their profession were dangerous. The objection to all such regulations is that they are useless, and the injury which would result from inefficiency cannot, however great it may be, furnish a reason for adopting useless regulations.

It might as well be said that we ought not to nail horseshoes to our doors to keep off witches becauses witches do not exist, but that we ought to nail them over the Bank of England, because there is an immense treasure stored up in its vaults. A Government examination will not induce more or abler men to enter the medical profession, and much the same set will be admitted as would have entered it if there were no examination. However strict it may be it can furnish no security against the doctor's forgetting what he has learnt, and if it be so strict as to diminish the number of practitioners below that which is required by the public, the deficiency will be made up by unlicensed practitioners, or else many patients will not receive any medical attendance at all.

Mr. Matthew Arnold, after saying that in Germany chemists are required to pass a more strict examination before they are allowed to set up in business than is thought necessary in England, triumphantly asks if the reader can doubt that the chemists of Germany must be more capable of performing their duties than those of England. I may venture to answer this question in the affirmative, for it so happens that Dr. Mayo, who was sent out by a British Society to attend the sick and wounded at the commencement of the Franco-German war in 1870, requested that the drugs might be sent out from England, because it was well known that they were better and cheaper here than in Germany. Numerous restrictions have been imposed on persons entering the legal profession. At one time no one could do so who did not accept the doctrines of the Church of England, at the present time women are altogether excluded, and no man can be admitted without eating dinners, paying fees, and giving some proof that he has studied the law. All

such restrictions are highly objectionable. The exclusion of Dissenters and women shuts out persons who are capable of doing the work well, and it is not necessary to prescribe a certain time which must be spent in studying law. There need be no fear that persons who are ignorant of law will obtain much practice, and if left to themselves, lawyers will be sure to acquire proper instruction. But I would not exaggerate the evil effects of these regulations, for as there is important work to be done, there will always be plenty of men to do it, and no marked effect on the character of lawyers could be expected to follow on the removal of any restriction, however narrow. I can only say that all regulations are either superfluous or injurious.

CHAPTER III.—CAPITAL.

DEFINITION OF CAPITAL DISTINGUISHED FROM MONEY—MACHINERY—COMMODITIES AND SERVICES—WORKHOUSE AND PRISON LABOUR—FALLACY OF OVER-ACCUMULATION—FREEDOM OF INDUSTRY.

In order that labourers may engage in any occupation which does not supply them with food day by day, it is necessary that a stock of food should be provided for them, either by themselves or by some one else. This stock is called "capital," and the person who provides it is called a capitalist.

The capitalist who provides the food usually provides also the materials which are to be worked up, and the machines which are to be employed. Common language regards as capital all the materials and machines which are employed in any undertaking as well as all the money which is spent in wages.

Adam Smith, in adopting this mode of expression, divided capital into two portions, the fixed and circulating. Fixed capital is that which the master keeps with him, of which he gives the tailor's needles as an illustration, and circulating capital is that which he transfers to others, that is, the wages which he pays to his workmen. Ricardo, while retaining these terms, gave them a different meaning, and used them merely to denote different degrees of durability, so that with him the tailor's needle is circulating capital, because it soon wears out, while a ship is fixed capital, because it lasts a long time.

There is a great deal of obscurity hanging about the subject of capital, and Mr. Fawcett, in defining it as that portion of wealth which is devoted to the production of future wealth, expresses himself dissatisfied with his own definition, and merely gives it as one with which the reader must be content until the subject had been more fully elucidated. Mr. Jevons suggests that it would tend greatly to simplify matters if we confine the term capital to the food and necessaries of the labourers. "Capital," he says, "as I shall treat it, *consists merely in the aggregate of those commodities which are required for sustaining labourers of every kind or class engaged in work.*"* In adopting this definition I shall regard it as immaterial whether the capital is actually employed in

* Theory of Political Economy, by W. Stanley Jevons. Macmillan, 1871. Page 214.

supporting persons engaged in productive industry, or persons living in idleness. Thus, the industry of a country is limited by its capital, since there cannot be more persons at work than the country has the means of supporting, but it nowhere reaches this limit, for in every country there are at all times a great number of persons, who, for various reasons, are not doing any work at all. By this definition, Mr. Jevons restricts the capitalist to the sole function of maintaining labourers until their work has been completed, and this is obviously the case when we regard them as a whole. The miller buys the mill and the corn, but in doing so he merely obtains the result of labour for which other capitalists provided the means of performing, by supplying the maintenance of the labourers. Regarding industry as a whole, we may say that capitalists only enable labourers to live until their work is finished, and if the capital of the country be large enough to give them time to make a machine and then perform their subsequent operations with its aid, we may say that capital has enabled them to wait, and that knowledge has enabled them to economise labour.

Food is the only thing which is absolutely necessary at all times and places, and in most countries where labourers are provided with it, they or their families can make and repair their own clothes and houses when they are not engaged in their ordinary work. I shall therefore use the term capital to denote simply food, and shall follow Mr. Jevons in altogether rejecting the expression "fixed capital," and in saying not that a railway is fixed capital, but that capital has been raised or invested in it.

It is not usual, at least in our age and country, for a capitalist to retain in his own custody the store of food with which his labourers are actually fed. It is more convenient to both parties that he should pay their wages in money, and leave them to buy their food as they want it. We therefore commonly speak of a person's capital as consisting, not of so much food, but of so much money. This unfortunately produces much confusion, and leads many persons to speak and write as if coin possessed the property of being able to feed labourers. Thus M. Léon de Lavergne, in his elaborate and valuable work on the Rural Economy of France, complains that the French Revolution retarded the progress of agriculture, by causing many estates to be sold to the tenants, and thus inducing the latter to expend on the purchase of the fee-simple much capital which would have been better employed in improving their farms. But the purchase of the land was a mere transfer of coin, and could in no way diminish the quantity of food existing in France and available for the purpose of feeding farm labourers.

It is not very likely that a farmer would spend so much on the

purchase of his holding as materially to interfere with his power of purchasing stock and hiring labourers, but if he did so, he would still be able to borrow what he wanted by means of a mortgage, for which he would then be able to give ample security. Almost in the same passage, M. de Lavergne says, that the revolution injured agriculture by bringing so many estates into the market as greatly to reduce the price of land. Here again capital is confounded with money. It is true that a piece of land which has been improved by the expenditure of much capital upon it will, other things being equal, sell for more than another piece which has not been so improved, and lowness of price may be taken as some proof of a small outlay of capital upon land. But the argument altogether fails when the fall of price is occasioned by a glut of the market, or by a feeling of insecurity restraining men from purchasing estates which have been confiscated for fear lest they should be confiscated again. Those who bought the estates of the French clergy or nobles at a low price were not thereby discouraged from laying out capital in improving them, and those estates which the Government was unable to dispose of were not left uncultivated, but were doubtless improved, either at the expense of the Government or by the tenants who cultivated them.

Every reader of Ricardo must have been startled by his condemnation of probate and legacy duties, on the ground that they fall wholly on capital, and consequently diminish the capital of the country. In point of fact, capital is precisely what the State must and will have, and what it obtains by taxes of every kind. Either it employs capital in maintaining labourers engaged in the construction of public buildings, or in the manufacture of uniforms or of other articles which the State requires. While the revenue remains the same, there is the same consumption of capital, and as far as this goes it does not matter to the people in what way the State obtains it. It is desirable that the taxes should be levied in the manner most convenient to those who have to pay them, and Ricardo admits that legacy and probate duties are easily collected, and they are certainly imposed at a time when it is most easy to pay them. Ricardo contended that if a person received a legacy of a thousand pounds, out of which he had to pay a hundred to the Government, he would consider the legacy as one of £900, and would not try to save up money to repair the breach made in the principal. This may be true, if the legatee is not engaged in industry, but it is not by the savings of such persons that the national capital is or can be increased. This increase can only result from the extension of agriculture to soils previously untilled, or from improvements in the mode of cultivation, and neither of these processes can be prevented, or even much retarded, by the course

pursued by the Government or the non-industrial classes in the disposal of their revenues. One of the objections made to the imposition of an income tax in India is, the natives pay it out of capital and not out of income, which is supposed to be very injurious to the country. But on the principle just explained the Indian Government must procure capital, and if it consumes it unproductively, it inflicts the same loss on the country in whatever way it obtains its revenue. In saying this, I do not wish to express an opinion on that vexed question of Indian politics, whether the income tax is, on the whole, a proper mode of obtaining the revenue.

In the north-west provinces, and probably in other parts of India, the collection of the tax gives occasion to much extortion and oppression on the part of the native officials; if it appears to Indian statesmen that these malpractices are encouraged by an income tax more than by any other taxes, or if from some other cause it is more unpopular, these would be sufficient reasons for resorting to some other impost, and the question is one which can only be decided by statesmen. The importation of capital is only an advantage to a country when it is employed in producing some useful commodity, but some persons seem to suppose that a country is always enriched when its Government contracts a foreign loan. Thus, when in November, 1871, the Spanish Government announced its intention of taxing the dividends on its external debt, the opinion was expressed in commercial circles, that by this act of repudiation the Government would deter foreigners from investing their capital in Spain, and so prevent the country from making progress. This opinion was most erroneous, for in the first place, Spanish farmers would continue to improve their lands even if nothing were imported from abroad; in the second place, the repudiation would not deter foreigners from employing their capital in producing machines for use in Spanish mines and railways; and in the third place, the Government employed the capital which the loan enabled it to procure in a foolish attempt to suppress the insurrection in Cuba, in which no true friend of Spain could wish it to succeed.

The definition of capital given above, will throw some light on the much disputed question of the comparative advantages of farming on a large scale. Those who find fault with the French system of agriculture complain, on the one hand, that too little capital is expended on the land, and on the other, that too many people are employed upon it. The difference is really one of form, and not of substance, for if a large farmer employs fewer men on the same extent of ground, the food which he raises is employed in maintaining the labourers who make his steam ploughs and other machines, who provide his manure, and other things which he requires. They are not employed actually on the land, but

they are none the less co-operating to the general result, the production of the harvest, and the question between large and small farms is reduced to this: can the same capital produce a larger crop when it maintains a number of labourers all directly employed on the land, or when some of them are employed in various mechanical trades, others tending horses, and others in the actual work of tillage? The answer to this question can only be furnished by experience, which will soon decide it in each particular case, since those persons who employ their capital most judiciously will be able to undersell the others or to make higher profits, and the better system will gradually supplant the worse. Applying this test to France, we find that in some departments the small farmers are able to hold their ground, in others they are gaining, and in others loosing ground.

There seems to be no decided tendency towards the extinction of either system, the "Grande" or the "Petite Culture," in the whole of France, and it would seem that each has its advantages which make it succeed better with a certain kind of product, the former being better suited for corn and grazing land, and the latter for the production of the vine and olive. It is not the object of Political Economy to teach farmers what is the best size for their farms. All that I desire here to point out is, that the capital of a country is just as useful whether it be owned in large or small masses, and that it comes to the same thing, whether the labourers buy their food with money which they have saved, or with wages which they receive weekly. This very obvious consideration was entirely overlooked by Wakefield. He was incapable of conceiving that a system which prevailed in England could be anything but the most perfect in the world, and as he found that in this country it was usual for farmers to own a large capital and employ a large number of labourers, he wished to introduce the same system into Australia and New Zealand. For this purpose he advised the English Government to charge a high price for land in the colonies, and to spend the money so obtained in sending out labourers from England. In this way he hoped to induce rich capitalists to emigrate, and then to supply them with labourers. Had he understood what capital was, he would have seen that South Australia would have been quite as well supplied with it, if it had offered an attraction to small farmers uniting in their own persons the functions of capitalist and labourer. By making land cheap the Government of the United States offers great inducements to this class of persons to settle in its territories, and labour and capital flow into them of their own accord and in great abundance.

The introduction of a new process, whether it involves the construction of a machine, or whether it is simply a better method of using the same

tools, is always a benefit to the community, because it enables the same quantity of labour to produce more commodities, and thus enables every one who consumes the particular commodity, whose production has been improved, to obtain it with less labour. But, unfortunately, the change necessitates more or less suffering among those who are already engaged in producing the article on the old plan, for it frequently happens that many of them are unable to find another employment which is so well suited to them, or even any employment at all, and the very fact that the new process effects a saving of labour, causes many of them to be turned off. Hence there has arisen a belief, which is widely spread amongst the working classes, that it is contrary to their interests that machines or other improvements should be introduced. Riots were at one time common in the North of England, which had the destruction of machinery for their object, and when Babbage wrote forty years ago, the working classes in the Rhenish provinces displayed an hostility to its introduction which greatly militated against the growth of manufactures in that district. At the present day, though we no longer hear of riots with such an object, the rules of some of our trades' unions are evidently designed to obtain a similar end. Some stonemasons' unions, for instance, insist that the stone shall not be cut at the quarry, but at the building where it is to be used. The reason is that stone is softer when fresh from the quarry, and that if it is cut there into the shape required, fewer men would be employed to do it than if it is allowed to harden by exposure to the atmosphere before it is cut. The framers of the rule suppose that it "makes more work," or causes more men to be employed, but in reality it only causes more to be employed in stone cutting, and thus raises the cost of stone buildings, and thereby inflicts an injury upon all who use them. It in no way increases the stock of food in the country, and therefore cannot cause more labourers to be maintained; it simply determines that some labourers shall be employed in this particular way, and inflicts an injury on the whole body so far as they are in the habit of using stone houses. It would be hard to censure severely men who are endeavouring to retain the employment for which alone their habits have fitted them, and who sacrifice the convenience of others for what is to them a matter of life and death, but there is no excuse for a permanent rule against the introduction of a new process by degrees as fresh hands enter the trade, and it is impossible to insist too strongly that what men want is not work but wages, and that no such rule as that here under discussion can possibly increase the quantity of food or clothing to be distributed among the labourers. The contradiction between the views which are popularly held on this subject can hardly be better expressed than they have been in "Tristram Shandy," where, in a conversa-

tion respecting the merits of a flying-carriage, which can be worked by the wind alone, Dr. Slop says, "It would be excellent good husbandry to make use of the winds, which cost nothing, and which eat nothing, rather than horses, which (the devil take 'em) both cost and eat a great deal." "For that very reason" (replied my father) "because they cost nothing, and because they eat nothing, the scheme is bad; it is the consumption of our products, as well as the manufacture of them, which gives bread to the hungry, circulates trade, brings in money, and supports the value of our lands; and though I own if I was a prince, I would generously recompense the scientific head which brought forth such contrivances, yet I would as peremptorily suppress the use of them."

Though no one would now push the argument to such a ludicrous conclusion, there are many persons who suppose that the introduction of machinery inflicts a temporary injury on the labouring class, and they have found an ally where they could have least expected one, in Ricardo, who, in his chapter on machinery, contends that its introduction may cause much circulating capital to be fixed in a form in which it cannot be used for the maintenance of labourers, and thus cause a diminution of the fund which supports them. In other words, he supposes that the quantity of food in the country may be diminished by the employment of some labourers in the production of machines. Now it is evident that the quantity of food cannot be diminished unless some land is allowed to go out of cultivation, and cannot be effected by the use of machines in any other branch of industry than agriculture. Ricardo accordingly puts the case of a farmer who employs some of his men in making a machine instead of cultivating the ground, and says that he may do so because he may receive the same net profit, in which ever way he employs his capital. But the sole object of introducing machines into agriculture is to increase the yield, and it is quite impossible that land should be allowed to be untilled while labourers are making a steam plough. In Ricardo's case it would be apparent to the neighbours that some of the farmer's land was uncultivated, and that the town which he supplied would be deprived of part of its daily food, and this would be sufficient to induce some other capitalist to set up as a farmer, and supply the deficiency. Thus the simple result would be that a farmer had turned machine maker, and some one else, perhaps a machine maker, had turned farmer. Ricardo, as usual, was content with a hypothetical case, but later writers have referred to the case of Ireland as an actual illustration of the truth of his argument. Thus Senior contends that the labourers of Ireland have been actually injured by the conversion of arable land into pasture, because the horses and cattle, which he calls animated machines, consume the food which would otherwise be used by men. Because fewer men are

employed in proportion to the extent of ground when it is used as pasture than when under tillage, Senior supposes that fewer men are employed in the country when the former system has been substituted for the latter. This by no means follows, for more land may be occupied, and less left waste. If a farmer dismisses some of his men and employs a smaller number, some one else is able to employ more, and as the men are still in want of employment, they will in some way or other meet with that other capitalist. If an Irish farmer had been in the habit of supplying a town with corn, and now finds it profitable to rear horses and cattle, it can only be because the town has found some one else who can supply it with corn, and the same number of people are able to obtain food. It is true that the population of Ireland is diminishing, but this cannot be attributed to any lack of food in the country, for it still exports both corn and cattle to England. It must be ascribed to the cause, whatever it may be, which renders it more profitable to carry on manufactures in England than in Ireland, and it does not matter to any Irish labourer whether English manufactures are paid for with corn or with cattle. As the population of England is increasing, though the same process of conversion of arable land into pasture is going on in this country, it is clear that the diminution of the population of Ireland cannot be ascribed to this process, which simply shows it is more profitable to rear cattle at home and import corn from abroad. It is the reverse of the truth to say that the investment of capital in undertakings which require a long time to produce their effects, is injurious to the working classes. During the period 1847-50 a great deal of English capital was employed in the construction of railways, the shares of which had been taken up in a time of speculation, and which the shareholders were compelled, much against their will, to complete. But Mr. Newmarch, in his admirable account of the development of railway enterprise,* has shown that the suffering fell, not on the labourers, but on the upper and middle classes, as is evinced by the great falling off in the receipts from the taxes on luxuries. The population increased, and the navvies, etc., received good wages, but they were employed in making railways, instead of producing luxuries, the consumers of which suffered accordingly. I am thus brought to the conclusion that labourers, as a body, cannot be ignored by the introduction of machinery. They cannot be effected by its introduction into any other employment than agriculture, and an agricultural improvement which diminishes the crop is a contradiction in terms, and as long as there is the same quantity of food in the country, the same number of labourers can find employment. I repeat, however, that every change

* See the 5th vol. of the "History of Prices," by Tooke and Newmarch.

may injure more or less the persons already engaged in a particular trade, and it would be harsh to blame them severely if they endeavour to prevent themselves from being ruined, but as all improvements are beneficial to the whole community, the Government is bound to prevent all acts of violence against those who introduce a new process.

The same reasoning leads me to deny the truth of the theory which has been expressed in the formula that "a demand for commodities is not a demand for labour." Against the use of this latter expression "demand for labour," I must enter a protest, which I am glad to be able to fortify by a quotation from the thinker whose views it is the object of the present chapter to explain and illustrate.

"Although labour is the starting point in production, and the interest of the labourers the very object of the science, yet Economists do not progress far before they suddenly turn round and treat labour as a commodity which is bought up by capitalists." *

It is most inconvenient to speak of labour being in demand as if anybody wanted work, and as if it were not so distasteful that no one would perform it except to obtain some commodity, or, at least, some gratification. After speaking of a demand for labour, Economists come to speak of its being scarce and dear, and then to consider its scarcity as an evil of the same kind as a scarcity of corn or cotton, while if it means anything, it can only mean that all persons who wish to earn wages can do so. The formula here under discussion means that a person who spends his money in the purchase of commodities only determines the mode in which labourers shall be employed, but that if he spends it in hiring servants, these form an addition to the total number of persons in the receipt of wages. Mill (followed as usual by Mr. Fawcett) maintains the truth of this proposition, but it has been much disputed, though its opponents have hardly comprehended its meaning. They consider it sufficient refutation to say that a person who purchases velvet causes labourers to be employed in making it, but this Mill does not deny; but he contends that if a person who has been accustomed to purchase velvet changes his habits, and spends an equal sum in the wages of servants, all the velvet makers will be able to live by the same or some other employment, and that the servants will be employed in addition, and must have been previously unemployed.

In order to obtain a clear view of the subject I will take an illustration of my own, in preference to following out the cases which are put by Mill. Mr. Carlyle tells us that Count Bruhl, a Prime Minister of Saxony at the time of the Seven Years' War, was in the habit of buying a new

* Jevon's Theory of Political Economy, p. 256.

suit of clothes every day. I will examine the effects which would have been produced by a change in his habits, and, to simplify matters, I will suppose Saxony to have no intercourse with foreign countries. Count Bruhl, I will suppose, expends as much on his clothes as is equal to the wages of twenty men, and some one persuades him that it would be better to spend it in engaging twenty pages to follow him wherever he goes. I will first suppose that there are no persons in the country who are capable of labouring and yet unemployed, and it is evident that in this case the count can only obtain his pages by taking those who are dismissed by the clothiers: by which term I would designate all those who perform the various processes of procuring the wool, weaving the cloth, and making the clothes. In this case, then, the same number of labourers is employed in ministering to Count Bruhl's wants, and nothing is altered except the mode in which he employs them. But if we take the more probable case, in which there are some persons previously unemployed, then I hold that the change may or may not have the effect of causing more to be employed. Count Bruhl may take for his pages twenty men who were previously doing nothing, and were supported by their friends. The clothiers may still employ their twenty men in making clothes for these friends, who are now relieved from the burthen of supporting the pages, and these latter will be earning a living, and there will be fewer persons maintained in idleness. Mill argues that this *must* be the case, because when Count Bruhl's demand for clothes ceased, there was still the same capital in the country, and it would be sure to find employment either in the clothiers or in some other trade. Capital, in the sense in which I use it, is employed in maintaining the pages, but Mill (as I understand him) supposes that there must always be the same amount of capital employed by capitalists for the purpose of obtaining a profit. But it is a familiar fact that industry is subject to constant fluctuations, and such expressions as "trade is brisk," and "trade is dull," imply that at some times a greater number of persons are employed in industry, and that at others a greater number are maintained by some form or other of charity, although in both cases there is the same quantity of food and the same population. It is well known that activity in the manufacturing districts is accompanied by a diminution in the number of able-bodied paupers, and when this takes place there is no increase either in the quantity of food or in the population, but the people are maintained in a different way. It might very well happen that Count Bruhl should take for his pages some men who were already employed, and that their places should be filled by the clothiers' workmen, and the same persons remain out of employment who had been so previous to the change. On the other hand, if the case be reversed, either result might follow. If Count Bruhl

dismissed his pages, and ordered clothes, the clothiers might take on twenty persons previously unemployed, and the pages might not find their friends willing to support them, but might be obliged to work in supplying the wants of those who are relieved from the burden of supporting the clothiers' workmen. It might equally happen that the pages should be able to live in idleness, but Count Bruhl has no power of determining which of these consequences shall ensue. There is a certain quantity of food in Saxony which is sufficient to maintain a certain population ; Count Bruhl has a sum of money which enables him to procure enough to sustain twenty labourers, and he can decide in what way they shall serve him in return for it, but he cannot determine that any greater number than twenty should be employed. Mill argues that a man who pays wages to domestic servants confers as much benefit on the labouring class as if he gives away the money without exacting any service in return. But surely this is not the case. If Count Bruhl, when he ceased to order clothes, had distributed the money which he formerly spent on them among the clothiers' men, he would enable them to obtain their wages as usual, and also to buy the clothes which they produced, but if the count requires them to perform a service which, however light, is incompatible with working at their trade, they must lose what they formerly earned, and receive his money alone. Fewer commodities will be produced, but this will make no difference to any one, except the count, who prefers to enjoy the pleasure afforded by a large retinue to that of a constant change of dress. In the 16th century English nobles gave up the practice of keeping a large body of retainers, and expended their revenues in the purchase of luxuries, and this fact has been adduced to explain the distress which was so much complained of at that period. The change was not so sudden as to produce any great amount of distress by merely forcing people to find another employment ; and if the foregoing reasoning be correct, it can in no way have diminished the fund for the maintenance of labourers. When the nobles received their rents in kind, they were able to maintain a large number of persons in their own houses, but when they received them in money, their tenants did not produce less corn, but sold it to various persons, who found employment in producing luxuries for the nobles. As a final argument in support of his opinion, Mill says—"There cannot be a better *reductio ad absurdum* of the opposite doctrine than that afforded by the Poor Law. If it be equally for the benefit of the labouring classes whether I consume my means in the form of things purchased for my own use, or set aside a portion in the shape of wages or alms for their direct consumption, on what ground can the policy be justified of taking my money from me to support paupers,

since my unproductive expenditure would have equally benefited them, while I should have enjoyed it too? If society can both eat its cake and have it, why should it not be allowed the double indulgence?"*

If it were a question between science and the Poor Law, I should not hesitate to condemn the latter, but is it correct to say that the Poor Law takes money which would have been spent on luxuries, and employs it in maintaining paupers? A large number of paupers are children, aged persons, or those suffering from some disease or infirmity, and it is probable that if there were no Poor Law these would be supported by their families, or by some form or other of charity; but the English Government, whether wisely or unwisely, thinks it better that the burden should be borne by the charitable and the uncharitable alike. To some extent the same is true of the able-bodied, who, whether they are unwilling to work, or unable to find employment, would probably find some way of inducing others to support them. So far as the law prevents people from spending money in the purchase of commodities it is objectionable, for it thereby diminishes the chance which this class have of finding employment; but I do not think that much harm is done in this way, for those who have the management of workhouses endeavour, as far as they can, to turn off those who can get employment elsewhere, and as I have just said, activity in the manufacturing districts is followed by a diminution of pauperism.

The confusion of ideas prevailing on this subject is shown by the objections which are raised against the employment of paupers and convicts in useful labour. It is said that they ought not to compete with free or honest labour, as if the working classes wanted work, and not wages. If the nation has decided to employ a certain portion of its capital in maintaining paupers, then any useful work which it can obtain from them is a clear gain, and all possible means ought to be taken to procure it. The working classes outside the unions would be in no way injured, for there would be the same amount of capital to support them, and as the rates would be lowered, the ratepayers would have more money to spend on other things, the production of which would require the labour of the same number as were formerly employed in producing things now made by the paupers. There are, no doubt, great difficulties in the way of introducing a system by which paupers should do much useful work. The inmates of our workhouses are not those whom an ordinary employer would select, and it must be very difficult to conduct successfully any business where the number of hands employed is determined, not by the state of the market, nor the orders received, but

* Political Economy. Book I., chap. 5, sec. 9.

by the number of persons asking for employment. It is not strange that the authorities of our workhouses should not have found any other employment than stone-breaking and oakum-picking, but it is much to be desired that some greater variety of choice should be afforded to the paupers. At present the ratepayers derive no benefit from the former of these occupations; for, startling as it may sound, the blocks of stone which are brought over from Guernsey to be broken up by the London paupers, cost more than would suffice to pay for breaking them in Guernsey, and bringing them to London in a state fit to be used in paving the roads. This extraordinary fact I give on the authority of Mr. E. W. Hollond,* who adduces it to support his argument in favour of such a better system of employing our paupers as I have just been advocating. The case is still stronger in favour of employing convicts in as useful labour as possible, and I regret to find Mr. Odger among those who object to their being allowed to "undersell honest labour." On every ground it is desirable that convicts should do so much work as will pay for the maintenance of the prisons in which they are confined. It is most unreasonable that the community should have to pay for the maintenance of those who have committed crimes against it, and their employment in regular industry is the best way that has been yet devised for fitting them to earn an honest livelihood when they leave prison. If only one or two trades, such as rope-making, is taught in our prisons, it will not contribute much to this end, for if a man shows an acquaintance with them, it is taken as a proof that he has learned them in prison, which prevents him from getting employment. The particular industry which has lately been the subject of these complaints is the manufacture of cocoa-nut matting, carried on in Wakefield prison, and a most complete answer is furnished to them by the fact that the manufacture was unknown in this country until it was introduced into the prison. So far is it, then, from being true that the convicts were displacing honest labour, that the fact is that honest labour is now striving to oust convict labour from its own field. It is to be hoped that the Government will resist this idle clamour, and will uphold a system which is so beneficial to the convicts and to the taxpayers.

The habit of confounding capital with money has led some writers, who deny the possibility of general over-production, to admit it under the name of over-accumulation of capital. Vaguely hinted by others, it has nowhere been more boldly stated than by Wakefield, who says, "The one thing needful for all society is more room for the profitable employment of capital. It is in the excess of capital above the means of

* See his "Principles of Pauper Labour." Ridgway, 1870.

profitable investment, that this country differs injuriously from the United States. . . . . I allude to the necessity of, in this country, an occasional destruction of capital on the grandest scale. Perhaps if a less energetic people had too much capital they would waste a little of it continually, so as to keep down the amount without fully exhibiting the destruction; but this is not our mode of proceeding. The practice with us seems to be to hoard up capital till we know not what to do with it, and then to throw it away as rapidly as possible, till the quantity for use is brought to a level with the field of investment." *

But there cannot long be too much food in a country, for either the population will increase in proportion, or less will be produced. It is true that too much capital may be employed for a time in one trade, which is the same thing as saying that over-production may take place in one trade. There may be a difficulty in finding employment for the capital of one individual, and he may miscalculate the advantages of a particular investment, but wherever there are human beings there are wants to satisfy, and sooner or later they will work in order to satisfy them. So far is England from possessing too much capital that it has to import large quantities from abroad, for it obtains annually 30,000,000 hectolitres of wheat, as well as large stocks of other sorts of food. Nor does a commercial crisis (to which Wakefield alludes) diminish the quantity of the capital of the country, but it simply transfers from one set of persons to another the power of obtaining certain portions of it. This transfer involves an immense amount of suffering, but though some are impoverished, others are enriched, and the population of the country remains as large as before. The large sums of money that Englishmen invest in foreign securities are regarded as proofs that England has more capital than it can employ at home, and that it enriches foreign countries by investing it abroad. But it is merely a question of the ownership of money, and it is probable that in one form or other foreigners invest a great deal of money in this country, and they would doubtless invest in Consols. if our Government would exempt their dividends from taxation. The increase of capital is due to agricultural improvements, and must be followed by increase of production. The transfer of coin only decides who shall be allowed to obtain and employ it; but here, as elsewhere, the matter is regarded from the capitalists' point of view, and treated as a question of the investment of money, and it has even been said that a national debt is beneficial, because it affords an investment for savings.

The arguments in favour of freedom of industry apply with equal force to freedom in the investment of capital, which is, indeed, the same thing.

* "View of the Art of Colonisation," p. 76.

As everybody desires to obtain wealth by the least possible labour, individuals, if left to themselves, will employ their capital in such a manner as will yield them the highest remuneration, which must be the manner in which it is most convenient for the whole society that it should be employed. If the service which they render to society is equal to that which they wish society to render to them, the undertaking will pay, and if it does not pay, it must be because society does not receive so much advantage from it as to make it worth while to support those who render it. All interference on the part of Government, with the object of causing capital to be employed in undertakings where it would not be directed by private enterprise, are either superfluous or injurious. If the Government establishes a monopoly, it prevents some persons from entering a trade for which they have an inclination, and by depriving the producers of the stimulus of competition it weakens the inducement to adopt improved methods of production, and thus raises the cost of the article in question. If the Government undertakes any industrial enterprise, it must either be one which would have been undertaken by private individuals, or one which would not. In the former case, its interference is superfluous, and in the latter injurious. Many failures in Government enterprises have become notorious, but in spite of this, their few successes are put forward as making out a case in favour of an occasional and judicious intervention in such matters. The French Government, after a series of experiments, spread over a period of thirty years, succeeded in producing a valuable breed of sheep known as the Rambouillet breed. Monsieur de Lavergne praises the Government for this, and asks what private individual would have carried on experiments for thirty years at a loss? Thus the very waste of capital which the system occasions is made an argument in its favour. It is very likely that if a private farmer had taken up the subject, he would have arrived at a successful result in a much shorter time, but the Atlantic telegraph cable is sufficient to show that private capitalists can, and will, undertake works which require them to make an enormous outlay, and wait for a long time before any profit is received. M. de Lavergne's work furnishes abundant evidence that France possesses many rich and enterprising farmers, who are both able and willing to make a great outlay in order to procure a future benefit, and if they thought that they could employ their capital better in some other way than in producing this particular breed of sheep, it would have been wiser to let them do so, instead of taking some of it to support the State farm. What the Government gave in one way it must have taken in another, and there are many other improvements which France required besides that particular one.

Among many arguments in favour of "Home Rule," Mr. Butt, in a

speech which he made in October, 1871, used one which deserves to be noticed here. He said that if Ireland had a Parliament of its own, that body would grant money to support the sea fisheries, and he complained bitterly of the neglect of this subject by the Imperial Parliament, in consequence of which the fisheries were gradually decaying. But if the Irish people employ less capital and labour than formerly in the fisheries, it can only be because they have found some more profitable mode of employing them. They could not need State loans to carry on the fisheries if these produced enough to compensate the labour employed in them, and if the fishermen themselves had not money enough, they could have no difficulty in borrowing from private money-lenders. If the Government granted a loan for such a purpose, it would be simply transferring capital from a more to a less profitable employment, and if the Irish, as they probably would, exported the fish, they would receive less in return than they now get for their corn and cattle. But I would not be understood in these remarks to imply hostility to the "Home Rule" movement, which, on the contrary, has my warmest sympathy. Mr. Lowe, when asked to grant money for this purpose, declined to do so on the ground that it was in opposition to the principles of Political Economy, but the Imperial Parliament, and Mr. Lowe himself, constantly disregard these principles when they are dealing with England. If an Irish Parliament were to endeavour to support fisheries in places where they would not pay, it would, in my opinion, be doing a foolish thing, but not more so than the Imperial Parliament does when it establishes schools or telegraph offices where they will not pay. As the Irish would not be justified in preventing England from establishing national schools, because such a step was opposed to Irish theories of Political Economy, so the English have no right to prevent Ireland from spending its money in supporting the fisheries on a similar pretext. Well may Mr. Butt say that if patriotism be the last resource of a scoundrel, Political Economy is the last resource of a blockhead. The political question is not whether such a grant is in harmony with English views, but whether England ought to force Ireland to adopt those views. It is humiliating to an Englishman to read such speeches as that of Mr. Gladstone, at Aberdeen, in September, 1871, for they show a determination to disregard the wishes of the Irish people. Mr. Gladstone says that "Home Rule" is unnecessary because *he* cannot see that Ireland has any grievance to complain of; but no tyrant ever was able to see that those whom he oppressed had anything to complain of. Ireland has for many centuries had one grievance, foreign domination, and Mr. Gladstone is quite capable of seeing that it would be a grievance to England to be under the domination of Ireland or of France. Our enormous expenditure on

the army and navy is chiefly kept up in order to save ourselves from such a misfortune, and if he were at all desirous to do to others as he would wish that others should do to him, he would be most anxious to emancipate Ireland. His demand to have a specific grievance pointed out is not an argument but a trap, for if we name one which he considers such he will say that the Imperial Parliament will remedy it, and that "Home Rule" is unnecessary. If, on the other hand, we name one which he does not consider such, he will make that a ground for refusing "Home Rule," and will say that he does not desire to conciliate the Irish people, but must be guided by what he dares to call a higher principle. In other words, while he considers that the will of the English people should decide what laws shall be passed for England, his own will and his own notions of right and expediency are to over-ride those of the Irish people. It is said that England is now behaving better towards Ireland because the Irish Church and the Irish Land Acts have been passed, but this only shows that there has been a change in the position of English parties. There have been many such changes during the last 250 years, but all English statesmen, from Strafford and Cromwell down to Mr. Gladstone and Mr. Disraeli, have been perfectly unanimous on one point, that Ireland must be governed by brute force. At the present time, a measure for coercing Ireland, by whichever party proposed, meets with no opposition except from a few Irish members, and the much-vaunted Church and Land Acts are sufficient in themselves to show that English statesmen have no desire to do justice to Ireland. The former Act left the Episcopalians in the possession of a privilege not accorded to Roman Catholics, that of forming a corporation, which should be capable of receiving donations and bequests; and Mr. Gladstone confessed that the object of the latter was to place Irish landlords in the same position as those of England, and not at all to carry out the wishes of the Irish people. The former measure was interrupted in its passage through Parliament by a bill, the object of which was to deprive the Mayor of Cork of his office, and to render him ineligible for that or any other, merely because he had made a speech which was in no way forbidden by the law of the land. So far, therefore, from the Gladstone Ministry affording any proofs of a better feeling towards Ireland, they disgraced themselves in their government of Ireland by an attack on the liberty of the subject, such as has not been paralleled since the time of Charles the First. But even if "Home Rule" were not the only plan that had ever been proposed for enabling England and Ireland to unite in peace and harmony, it would be a great boon to the whole country, as a simple improvement in the machinery of legislation. In the political, as in the industrial world, there comes a time when

division of labour is necessary in order to get through the work which has to be done. Mr. Gladstone told the people of Scotland that they had no cause to complain of the delay in the transaction of their business, because Parliament was occupied with measures which concerned the whole country, Scotland included, and that if English business had occupied the half of one session, the whole of another had been taken up with Irish business. But it does not follow that a system is good because it is extremely inconvenient to all parties concerned. If we had a Federal, an English, a Scotch, and an Irish Parliament, all sitting at the same time, no one country would have to do without legislation because another required a great deal. To suppose that these countries would be estranged from one another because each had its own representative body to legislate for it, and a Federal Parliament to control their common affairs, is as absurd as to suppose that two friends cannot dine together amicably unless they are restricted to one plate and one knife and fork between them. Mr. Gladstone said that he did not know what "Home Rule" meant, but he had been often told that it meant federation, and if he was really so ignorant of the constitutions of the United States, the dominion of Canada, Switzerland, Germany, and Austria, as not to know what federation meant, he was quite unfit for the office of Prime Minister. I should not have entered on the discussion of a subject so purely political, had it not been that the name of Political Economy has been so often degraded by its being quoted in justification of the tyranny which is practised over Ireland, and I am anxious to show that here, as elsewhere, there is no hostility between the truths of science and the precepts of religion.

CHAPTER IV.—POPULATION.

INCREASE OF POPULATION—MALTHUS—STEUART—OVER-POPULATION—PAUPERISM—EMIGRATION—POPULATION IN ANCIENT TIMES—FRANCE—ENGLAND—IRELAND—POPULATION IN THE FUTURE.

MANKIND increase in numbers as the capital in their possession increases. In considering this subject, there are two facts which must always be borne in mind: 1. That people cannot live without food; and, 2. That there are always many persons who are willing to marry and bring up families, but are prevented from doing so by poverty, or the fear of poverty. The first of these is generally admitted, although it cannot be said to be undisputed, for various tales have been told of persons who have lived for many years without taking food of any kind. Whenever these have been carefully investigated, they have been found to be cases of imposture, and I cannot doubt that the same result would have followed in all the others if similar precautions had been taken. My readers may remember the case which attracted some attention in 1869, of Sarah Jacobs, "the Welsh fasting girl," whose parents averred that she had taken no solid food for years, but who died within a week after she had been carefully watched by some nurses from Guy's Hospital. The post-mortem examination proved that before the watch had been set upon her she had been supplied with solid food, and her father was subsequently tried and sent to prison for the share which he had in causing her death. No one is likely to dispute the truth of the proposition, as far as the majority of mankind are concerned, and I may be blamed for dwelling so long on such a well-known truth, and it may seem that there cannot be much value in a science in which it is thought necessary to insist upon it. But it would be a great mistake to suppose that because the fact is familiar, there is, therefore, no reason to insist upon it, for the sole function of science is to take simple truths, and to trace out their consequences, and to reject everything which is inconsistent with them. Political Economy cannot invent truths, but can only take facts as it finds them. Although no one would assert that people can live without food, the assertion so commonly made that increase of population causes, and therefore precedes, the increase of food, implies that it is possible. For proof of the second proposition, I must appeal to general experience. I suppose every one knows some cases of persons who are anxious to marry, but are obliged to defer doing so until they have what they consider enough to maintain a family.

Malthus united these propositions in the statement that population is

always pressing on the means of subsistence, by which he meant, that if the means of subsistence in any country were increased population would increase also. He found that in some parts of the United States population had doubled in twenty-five years, from the simple excess of births over deaths, after making every deduction for the addition made by emigrants and their offspring. If population increased at this rate, it would only require a century to increase sixteen-fold, and Malthus pointed out how impossible it was that the supply of food in England should be increased at such a rate. He therefore concluded that if the population did not increase so fast, it must be checked, either by a great number of premature deaths, or by the exercise on the part of many persons of "moral restraint," *i.e.*, abstinence from marriage unaccompanied by vice. By reference to the accounts of travellers in every part of the world, he showed that one or other of these checks was always in action. Either great numbers of children die from want, and diseases brought on by want, or infanticide is commonly practised, or else people marry late in life and have but few children. For enunciating these simple and obvious truths, Malthus was exposed to much calumny, and denounced as hard-hearted, unfeeling, etc. It is always to be regretted that such attacks should be made on seekers after truth, and they are the more unjust in his case, because his common sense and religious feeling made him shrink from the revolting proposals which have been put forward by some of his *soi-disant* followers, with a view of preventing population from increasing too fast; and it is but justice to Malthus to say that these attacks had no other effect upon him than that of inducing him to expunge or soften down every passage which was calculated to wound the feelings of others. Some people speak as if he wished that nobody should marry, but it would be more correct to say that he wished that everybody should marry, for he wished that nobody should have a large family in order that every one might have a small one. Whatever the number was which the country was able to support, he desired that it should be kept up by the smallest possible number of births, which is the same thing as desiring that the people should attain the greatest possible longevity, which is the end which all philanthropists must desire to obtain.

Sir James Steuart, who as early as 1767 anticipated much of the reasoning of Malthus, compared the human power of generation to a spring kept down by a weight (the difficulty of procuring food), which always starts up when the pressure is diminished. The power of procreation may be considered as a constant quantity, and the variations of population follow the variations in the quantity of food. If that remains the same, population cannot be diminished by any loss of life in war or at sea, but those who are left will be able to bring up more

children in the place of those who are dead, but who formerly consumed some of the food. If we imagine a time when all mankind were engaged in agriculture, and each only produced enough for himself, and as many children as were necessary to keep up their numbers, there could have been no increase of population until some one discovered a better method of cultivation, which enabled them to produce food for others as well as themselves. These, whom Sir James Steuart calls the "free hands," may either take to farming themselves or they may not. If they do, it must be because there are other lands which, if taken into the cultivation, will yield as much to an equal quantity of labour as those already cultivated yielded before the improvement was introduced. If they do, they still farther increase the quantity of food, and enable themselves or others to bring up more children. There are three countries which enjoy this advantage in an eminent degree: the United States, Russia, and China, and in all three population is steadily increasing, while it is distributed over a larger space. The first is well known, but the second has not received so much attention, though it is to the constant migration of the Russian peasant both eastward and southward that the extension of that empire is really due. English politicians imagine that there is some danger to Europe from the aggressive policy of Russia, but her conquests only follow her colonisation, and her peasants hold the soil by the best of all titles, that they alone cultivate it, and render it useful to man. Although the political strength of China is declining, the constant emigration of the Chinese to the north and west is continually extending the range of her civilisation, which will long continue to flourish and extend itself, though it may be under foreign domination. In a country where there is no great extent of unoccupied land, the "free hands" may find it more convenient to take to some other employment than agriculture, and some of them may be naturally better fitted for some other. They exchange their products for the surplus of the farmer, but their number must depend on the amount of this surplus, and however beneficial any improvement may be which they introduce into the manufacturing or other business which they carry on, they cannot increase the population. Some of the "free hands" may be able, by force or otherwise, to induce the farmers to supply them with food without requiring any service in return, though this does not often happen, except in the case of those who are physically unable to work, for the landlords who need not give anything in return for what they receive, are generally required by public opinion to take more or less share in the government of the country, and thus assist in protecting the farmer, and if they do not add to the total product, they at least prevent others from diminishing or unduly appropriating any portion of it. It

may be thought that farmers would not introduce improvements unless there were a demand for more food, and that population must increase first. But this cannot be so, for people cannot live without food, the supply of which must be increased before any greater number of children can be reared. As every one desires to obtain wealth by the least possible labour, every farmer tries to raise the greatest product from his own land, and if he succeeds in increasing the quantity, he may either increase his own family, or may at least enable some one else to do so. The extra quantity must find its way into the possession of somebody who desires to increase his family, and the food will create its own demand. Agriculture is, by its very nature, uncertain, and farmers are obliged to exert themselves to obtain as large a crop as possible, because they do not know how much their labour will produce, and they cannot make it suit with the requirements of the market. If an improvement be introduced on some farms which is not applicable to all, it may not have the effect of bringing more land into cultivation, but will simply enable the same number of people to raise a larger product upon the same extent of land. In this case the "free hands" whom the improvement calls into existence, will not take to farming, because they can obtain food by working at some other trade, and supplying the wants of the farmers, or if they took to farming, they would have to cultivate worse land than any already tilled, and would receive less food in return for their labour. The general effect of agricultural improvements is to increase the number of persons engaged in trade and manufacture, but to leave the agricultural population stationary. It is about the same in France as it was before the Revolution, and Mr. Rogers even considers that it is about the same in England as it was in the 14th century, but, of course, this only applies to countries in which there is no large extent of unappropriated land.

Before the time of Malthus, those who administered the Poor Law thought they promoted the growth of population by increasing a pauper's allowance in proportion to the number of children which were born to him. Malthus showed this was a mistake, and that the growth of population depended on the increase of food, and could not be affected by any methods which the Government employed for transferring money from hand to hand. If the Government took some of the food and gave it to the paupers, it enabled them to bring up families, but it at the same time prevented other people from doing so, for the same food cannot feed two persons at once, and the Poor Law provided no means for increasing this quantity. And yet, so tenacious is error, the same fallacy re-appears under the name of Malthusianism. Although Malthus proved that population cannot increase faster than food, yet *soi-disant* Mal-

thusians contend that people can, by improvident marriages, increase their numbers to such an extent as to render it necessary to resort to poorer soils to supply them with food, and that what they call over-population is the chief cause of distress. They should say that over-population is distress, for it is expressly defined by Mr. Thornton as a state of things in which some persons are able and willing to labour, but cannot obtain employment. Political Economy is still in what Comte has called the metaphysical stage, or in other words, many of its so-called explanations are nothing more than truisms. There is nothing on which a man will insist more vehemently than a truism, because the impossibility of denying it renders him angry with all those who refuse to attach so much importance to it as he does. Here the thing to be explained is the fact that there are some people who are in want of the comforts or necessaries of life, and the explanation given is that there are too many people for the quantity of food and other things to suffice for them all. But this is not an explanation, but a statement of the fact, since saying that there are too many is merely saying that there are some people who have enough, and others who have not. If sailors are wrecked on a barren island, they will perish of starvation, but no explanation would be furnished by the statement that the island is over-peopled. Many historians—as, for instance, Hallam—consider that the working classes were formerly able to purchase more bread than they can at present, and suppose that the increase of population has rendered it necessary to resort to poorer soils, and so to increase the cost of producing wheat. But I contend that it cannot have had this effect, but can only have followed on agricultural improvements, and that the cost of growing wheat on the worst soils cultivated is the same now as in the time of Edward the Second. Hallam was led into error by taking the price of wheat in the year which he wrote, which happened to be one of scarcity, and comparing it with the average of a century; but if he had taken the bad years at the beginning of Edward the Second's reign, and compared them with the average of the half century which preceded the publication of his work, he might have reversed the picture. In accordance with the principles just explained, I hold that the population of England has increased since the time of Edward the Second in consequence of agricultural improvements, but that this has never induced the people to cultivate soils which yielded less to the same quantity of labour than the worst then cultivated. I believe that I am near the truth when I say that the worst then yielded 36 hectolitres of wheat to the labour of each man directly or indirectly employed upon them. Some improvements were only applicable to certain farms, and these have increased the number of "free hands." Others have enabled people to obtain 36 hectolitres from land which

would formerly only yield 30, 20, or, it may be, some smaller number, to the labour of one man, and these have had the effect of extending cultivation. But neither could have had the effect of inducing men to cultivate land which would not yield 36 hectolitres, for the "free hands" must have been able to support themselves by some other occupation than agriculture, and if they set up as tailors, for instance, they could have obtained from the farmers 36 hectolitres in exchange for a year's labour, and to suppose they would voluntarily cultivate land for themselves which would only yield them 35 or 34, is to suppose that they would undergo more labour to obtain wealth when less labour would suffice. The fact that the population has increased proves that the farmers are able to support more persons than formerly who are not engaged in farming. There may, of course, for a time be too many persons engaged in one trade, but I hold with Mr. Rogers* that general redundance of population is as great a fallacy as general over-production. Where there are human beings it is clear that there is food enough to maintain them, for otherwise they would not be alive, and though there are always some who are unable to find a suitable occupation, there cannot be a general deficiency of the means of employing them in such a way as to provide themselves with the other articles which they desire.

In order to account for the existence of pauperism, we must enquire what are the circumstances which prevent people from producing as much as they require to keep themselves in comfort. One obvious cause is the ignorance or the inefficiency of the persons themselves, and the remedy must be sought in some system of education which would render all of them more fit to exercise some handicraft. But, however much education may be improved, one cause of pauperism will always remain in the vicissitudes of the seasons. When these are unfavourable farming industry is less productive, and this must diminish the comfort of the people.

In a country which has little or no intercourse with others, a bad harvest produces a famine, for, as less food is produced, some persons have to go without it altogether. In our own country we are happily exempt from these tremendous catastrophes, but we feel the effect of a bad harvest in a different way. When the seasons are propitious the "free hands" are employed in manufacturing various articles to supply the secondary wants of the farmers and of themselves; when they are unpropitious, the "free hands" are engaged in manufacturing goods to be sent abroad in exchange for corn. As the wants and tasks of foreigners are different to those of our own people, there must be a considerable transfer of labourers from one employment to another, and as this neces-

* See his article on the Colonial Question in the 2nd Series of Essays published by the Cobden Club, 1872.

sitates much suffering on the part of those who are already used to one trade, it follows that, as is well known, a bad harvest produces distress in the manufacturing districts. It would be difficult, if not impossible, to establish such a system of education as should enable everybody to find employment, notwithstanding all these changes.

As the Poor Law does nothing to increase or diminish the supply of food, it can have no effect upon population. If it enables paupers to live and bring up families, it must to the same extent prevent some one else from doing the like. If it encourages landlords to pull down cottages, and so diminish the population of the rural districts, it must to the same extent increase the population of the towns. The objections to the Poor Law are rather of a moral than of an economic character. It is for the moralist to judge a system which deprives charity of its generosity by making it compulsory. It is for him to say whether it is better that a man who is out of work, from ill-health or any other cause, should be supported from a fund to which he has subscribed while in employment, or receive alms which others are compelled to give. But whichever mode be adopted, there is the same distress, and the same loss to society, just as the loss which the Chicago fire occasioned to the American people was in no degree lessened by the fact that many of the buildings were insured.

As population is always pressing on the means of subsistence, it follows that emigration cannot of itself reduce the number of inhabitants; and we find accordingly that those countries which send out the largest number of emigrants are rapidly increasing in population, and that where this is not the case, but a diminution is taking place, the country in question is either exporting food, or suffering from some great calamity which renders it more difficult to produce it. As long as there is the same quantity of food in a country, the population must remain the same, and if many persons leave it every year, more will be born to take their places, and their departure relieves those whom they leave behind from the necessity of maintaining them, and increases their power of maintaining their families. There is nothing, therefore, surprising in the fact that England sends forth many thousand emigrants every year, and yet continues to increase rapidly in population, and, indeed, this very emigration in some degree accounts for the increase. English emigrants who settle in America and Australia engage in farming, and send the food which they produce to England in exchange for our manufactures, so that they, in fact, feed us while we work for them, and enable this country to maintain a much larger population than she could well do if restricted to the products of her own soil. Even when emigration takes place on a large scale in consequence of the oppression of the Government, it will not diminish population unless the actual cultivators of the soil

leave the country. It is probable that the Revocation of the Edict of Nantes did little, if anything, to diminish the population of France, since the Huguenots who fled the country were chiefly the artisans and traders of the towns, and that little or no land went out of cultivation, but the food which was produced as usual enabled the Catholics to increase their families, and repair the breach made in the population. The expulsion of the Moors from Spain probably had this effect, for they were the actual tillers of the soil, though even here the number must have been soon made up again by migration from other parts of Spain into Granada. Senor Garrido, in his "Espagne Contemperaine," gives the population of Spain in the reign of Philip the Second as 8,000,000, and as 16,000,000 at the present time, although he does not think that much reliance can be placed on the former number, or, indeed, on any which has been published by the Spanish Government until very recently. If, however, this number at all approximates to the truth, it shows that the population of Spain has doubled since the time of Philip the Second, although it is even now very thinly peopled, as it contains less than half the population of France, although nearly equal in extent. This would show, at least, that the much talked of decline of Spain is not an absolute falling off, but a slower progress when compared with other countries.

It is difficult to say what is the cause of emigration. It has been vaguely ascribed to over-population, but no connexion can be established between the density of population and the number of emigrants which a country sends forth. While Holland, with a population of 112, and France with 69 to the square kilometre, send out no emigrants worth mentioning, the largest numbers go from Germany, which has 74, and Ireland, which has 68 to the same area.* If by over-population it is merely meant that the country contains more people than can obtain a comfortable maintenance within it, the explanation is little better than a truism, since the fact that there is a large emigration is the only proof given of the superabundance of population. The explanation, whatever it be, must be sought for in moral causes. If a people are much attached to their native country, they will rather take any employment at home than seek a new one abroad; if they are enterprising, they will rather follow an occupation for which they have a preference in a foreign country, than take to any other at home. In such a country as the United States, where the great majority of the people are engaged in agriculture, it is natural that young men should prefer to go westward and follow the occupation with which they are familiar from childhood, rather than engage in manufactures in their native States. In such

* In this and the following section, the numbers, when not otherwise specified, are taken from the Almanach de Gotha for the year 1872.

countries emigration thoroughly works itself into the national habits, and population increases most rapidly, because the "free hands" whom every successive increase of food sets at liberty, employ themselves, not in manufactures, but in still further increasing the quantity of food. It is to such countries that emigration takes place, for although the natural increase of births could keep pace with the increase of food, still the inhabitants find it a great advantage to receive full-grown men and women, who are able, as soon as they arrive, to perform services in return for the food which they receive. But there is nothing, so far as I can see, in their economic condition to explain why France should number her emigrants by hundreds, and Germany by tens of thousands. In France, as elsewhere, there are many persons who have to wait a long time before they can obtain an employment which suits their fancy, but they seldom think of emigrating in these circumstances, as an Irishman or a German would do. I can only refer to the character of the people to account for this fact. If emigration became a common practice in France, it would not diminish the population, nor would it cause it to increase more rapidly than it does at present; the only effect would be that French families, instead of consisting as they now generally do of two children only, would contain, on the average, three, or two and a half, and that some would emigrate when they grew up.

As agriculture is constantly improving, and as new means are constantly devised for bringing poor land into cultivation, as well as for increasing the produce of that which is already under tillage, there is in every country a constant tendency towards an increase of population. In our own time, this tendency is proved to be actually triumphing in most countries, by the unanswerable evidence of statistics, and although the same evidence shows that in some countries the numbers are declining, the loss in these cases is far outbalanced by the gain in the others. It is reasonable, therefore, to suppose that the same process has always been going on, and to look with suspicion upon all statements of ancient or modern writers, to the effect that the population of Europe, or of any considerable part of it, was formerly greater than at present. It is difficult to speak seriously of Montesquieu's opinion that there were not upon the earth in his time a fiftieth part of the numbers of men who were living in the time of Julius Cæsar. The subject was fully discussed more than a hundred years ago by Hume and Wallace. The former, in his masterly essay on the "Populousness of Ancient Nations," collected with great care all the statements which he could find in the Greek and Roman writers which bore in any way on the subject of population, and showed how baseless they were for the most part, and how they contradicted one another. Hume lay under the double disadvantage of

knowing neither the population of any country of Europe in his own time, nor that of any country in ancient times, and the ability with which he conducted his argument under these circumstances strikingly demonstrates the great powers of his mind. The conclusion at which he arrived was that the population of Europe, of France, and of Spain, was much greater in his time than it had ever been before, and though he admitted that Greece and Syria might have fallen off, he threw doubts on the very large number which had been attributed to them. The publication of his essay called forth a reply from Robert Wallace, whose essay on the "Numbers of Mankind in Ancient and Modern Times" was accompanied by an appendix, in which he examined *seriatim* all Hume's arguments, and endeavoured to refute them. This work displays considerable learning and some ability, but it is pervaded throughout by an uncritical credulity which affords a striking contrast to the vigorous scepticism of Hume. Wallace accepted all the numerical statements put forward by classical writers, although they frequently lived many centuries after the time of which they wrote, and although Hume had pointed out that mistakes are more likely to occur in copying numbers than any other portion of a manuscript, and that, therefore, all such statements should be received with extreme caution. Wallace and other writers suppose that the world was more populous in the time of Augustus than it is at present, the writers of the Augustan Age thought it was less populous then than it had been in what was even then a remote antiquity. Diodorus Siculus tells us that Western Asia was more populous in the time of Ninus, a personage who never existed, and who was alleged to have existed more than a thousand years before the time of that historian. Of course no one would now place any reliance on such a statement. Hume has pointed out an error to which persons who reason on this subject are liable to fall into, that of regarding antiquity as if it were all one period, and of supposing that a country was formerly more populous because the ruins of large cities are to be found in it, as if all these flourished at the same time. But these ruins only show the population has shifted from place to place, and it has yet to be proved that the countries which are now ruled over by the Sultan of Turkey and the Shah of Persia are less populous than they were when they were subject to the ancient Assyrian or Persian monarchs, or even that Nineveh or Babylon were more populous than modern Bagdad.

There is another error which is commonly committed, that of confounding the relative importance of a town or a State, when compared with those which flourished at the same time, with its absolute importance compared with the present time. Because Carthage had a larger commerce two thousand years ago than any other port of the Mediterranean had at

that time, it by no means follows that it had a greater commerce than Tunis has at present, but we think little of Tunis, because we compare it with London and Marseilles. The ancients considered Tyre an important city, but Arrian, a contemporary writer, says that when it was besieged by Alexander, 8,000 persons were killed during the siege, and 30,000 taken prisoners at the end, so that the whole population according to him was no more than 38,000, so that we should now consider it an insignificant town, though it may have appeared large to the inhabitants of the small towns of Greece and Italy. The ancients used to register the number of free men who enjoyed the full rights of citizenship, and where these records are preserved they do not show that Greece or Italy were more populous than at present. From a statement made by Justin respecting the military force of Greece when it submitted to Philip of Macedon, Hume calculated that the country then contained 1,200,000 inhabitants, while the modern kingdom of Greece contains 1,457,000, but the correctness of the calculation is disputed by Wallace, and Justin himself lived several centuries after the time of Philip. The complaints of the depopulation of Italy which were common in the Augustan Age had probably no other foundation than the consolidation of small farms into large ones, which diminished the population of some rural districts.

The fact that Rome imported a large quantity of corn from Sicily in the form of a tribute is a tolerably sure sign that the population of Italy was increasing, and nothing can be more untrustworthy than popular notions of increase or decrease when unsupported by statistics. The belief that Egypt was formerly very densely peopled rests on the authority of Herodotus, who tells us that in the reign of Amasis, just before the Persian conquest, it contained 7,000,000 inhabitants, and 20,000 populous cities. Both these statements cannot be true, since each city could only have had on the average 350 inhabitants, without leaving any for the rural districts. When Hume pointed this out, Wallace proposed to get over the difficulty by multiplying the former number by four, and supposing that Herodotus spoke only of heads of families. Diodorus Siculus, who wrote some centuries after Herodotus, gave the population of Egypt in his time as 3,000,000, but it does not appear that either of these writers had any satisfactory data for forming an opinion. Even in our own time, it is difficult to obtain with precision the population of Egypt.

Mr. Lane* tells us that somewhere about 1830, a calculation was made by taking the number of houses and allowing a certain average of inha-

* "Manners and Customs of the Modern Egyptians," 5th ed., 1860, pp. 22-24.

bitants to each, and this gave 2,400,000 as the total number. He supposes that at the time when he was writing this number had been diminished to less than 2,000,000, but his reason for thinking so is that the Pasha had employed 200,000 men in military service abroad, and this by no means justifies Mr. Lane's conclusion. If a large number of men are sent abroad, those who remain at home will find it more easy to marry and bring up children; and, if the quantity of food remains the same, the number of inhabitants will be the same; although, as Malthus has pointed out, there will be a greater proportion of children to adults, and the industrial strength of the country will be diminished. According to the Almanach de Gotha, the population in 1844 was 3,500,000, and until some proof is brought forward we are not bound to admit that it has ever been more than this. I say until some proof is brought forward, for there is nothing impossible in such a supposition. Mr. Lane considers that if all the soil were cultivated, and none of the food exported, the country might support 8,000,000, and it may be added, that if it were to import food it might contain a still larger number, and it may formerly have pursued one or other of these courses. It may seem strange at first sight to suggest that the Empire of the Pharaohs did not contain more than 2,000,000 inhabitants, but a State of such a size may have greatly impressed the imagination of writers who were only familiar with the petty States of Greece and Italy, and the modern Egyptians might, if their religion permitted, produce sculptures and paintings in which Sir Samuel Baker's expedition should be made to assume as extravagant proportions as the conquests of Rameses. Similarly, until some better statistics are brought forward than any which have yet been produced, we are not bound to admit that Sicily or Syria has ever been more populous than at present.

When a country is so fully occupied that there is little waste land to bring under cultivation, the agricultural population cannot materially increase in numbers, but every improvement which makes their labour more efficient increases the number of those who are disposable for manufactures and commerce. This is exemplified in the case of France, where it appears that the number of persons engaged in agriculture is about the same now as it was in 1789; namely, about 20,000,000, while the total population has increased from 26,000,000 to 36,000,000. Some writers have assumed that a great and sudden increase was the immediate effect of the Revolution of 1789; but I have not been able to discover any satisfactory grounds for this opinion. Michelet, for instance, is fond of saying that the Revolution gave 10,000,000 of people to France, and this is so far true that the population of the country has increased to that extent since 1790; but some proof is required that it

was increasing less rapidly before that time, in order that we may set down the Revolution as the cause. A census was taken in 1790, which showed that the country had then contained 26,500,000, and in 1815 they had increased to 29,500,000, being at the rate of 120,000 per annum. Between 1815 and 1847, the increase was 6,000,000, or about 200,000 per annum. M. de Lavergne therefore assigns the Restoration as the epoch of a marked improvement in the prosperity of the country, and his view is certainly more in accordance with the figures. He tells us that Necker a few years before the Revolution estimated the annual increase at 182,000. Sir William Petty, a century earlier, had estimated the whole population at 14,000,000; and, if this were correct, the annual increase from his time down to the Revolution must have been nearly 120,000 on the average. I do not know whether either of these estimates is to be depended on, but they, at least, require to be disproved before we can accept vague statements respecting the slowness of the rate of progress. The fact that the population of France increased by 3,000,000 between 1790 and 1815, although she was engaged in war during nearly the whole of that period, shows how great a mistake it is to suppose that the destruction of life in sieges and battles must of necessity diminish the population of a country. This destruction takes place chiefly among able-bodied men, and as the number of women is but little diminished, those men who are left behind find it more easy to marry, and as it seldom happens that so large a draft is made on the people as not to leave enough for the cultivation of the soil, the same quantity of food is produced, and an increase of births fills up the gap which war has created. M. de Lavergne* introduces a difficulty into the question by telling us that the calculation made by Chaptal in 1815, of the amount of the agricultural produce of France, gives the same quantity as that of Levoisier in 1790, and that both are correct. If the quantity of food was the same at both periods, it seems strange that the number of inhabitants should have increased by 3,000,000, though it is possible that the great extension of the boundaries of France which was effected by Napoleon may have enabled the country to import food from Belgium and other countries with which it did not formerly enjoy free trade; but if this be so, France must have produced a very much larger quantity of food immediately after the peace, since its population did not fall off, but, on the contrary, increased. Whether this was so, or whether either or both of these calculations were incorrect, I am not in a position to determine. The more rapid increase during the period 1815—1847, was the natural result of the return to peaceful industry;

* "Econ. Rur. de Fran.," p. 43.

but the very slight increase during the next ten years, which was not on the average more than 60,000 per annum, has excited some surprise. It would seem to be principally due to the diseases which attacked the potato, the vine, and the silkworm; for it must be remembered that a country like France, in which more than half the people are engaged in agriculture, and which supplies itself with food, is more liable to suffer from the vicissitudes of the seasons than a country like England, which draws its supplies from all parts of the world, and gives its manufactured products in exchange. The population of France is now somewhat diminishing, and attempts have been made to explain this by reference to the conscription, but this is obviously inadequate, as we have seen how small was the effect of the wars of the Republic and of the Empire. As, however, but a small portion of the soil of France is employed in growing cereals, we ought not perhaps to expect a rapid increase of its already large population, and the French may find it more profitable to export wine into England, and import our cloth and hardware, than to grow wheat and support their own people in manufacturing them at home.

The population of England and Wales has been rapidly and steadily increasing during the present century. Very exaggerated notions have been and are still entertained respecting the effect of the Corn Laws in preventing this progress. It has been said that they "cursed the country with a perpetual dearth," but, in reality, they did not, and could not do any such thing. They did, in a great measure, restrict this country to the produce of its own soil, since they prevented the importation of foreign corn except in time of scarcity, but they did not prevent agricultural improvements, nor the increase of populations nor the development of manufactures, and, indeed, it was the powerful manufacturing interest which had grown up under the Corn Laws which at length acquired sufficient strength to sweep them away. As the true nature of the Corn Laws is not generally known, it may be well to explain what they were and what effect they produced. The Corn Law of 1828 prohibited the importation of wheat until the "Gazette" average price for a number of weeks had reached a point equivalent to 28f. the hectolitre, when its importation was permitted on the payment of a duty of 8f. 50c. the hectolitre. As the price rose, the duty fell, until the former reached 31f., at and after which point the duty was only 43c. the hectolitre. 28f. was far beyond the ordinary price, and during the years 1832 to 1836 inclusive, the average price of the year was never more than 23f., and during almost the whole of that period our ports were closed against foreign supplies, yet the population of the country steadily increased during that period. It cannot be said, therefore, that

the Corn Laws, as a general rule, made corn dear, or that they prevented us from obtaining an increased quantity.

The real effect of the law was to produce excessive fluctuations of price in years of scarcity, since, if we had not enough to supply our wants, it was necessary that the price should rise to 28f. before we could obtain any from abroad, while, but for the law, we might have obtained fresh supplies when the price was no more than 20f. the hectolitre. Although foreign wheat could not be entered for home consumption unless the price was as high as 28f., it might be stored up in bond; that is, placed in warehouses in our ports for as long a time as the owners chose, without paying any duty, and while in bond might be sold over and over again. There was generally a large supply in this state, some of which was often kept for months or even years before it could be brought into the interior of the country. When the price was seen to be rising towards 28f., the corn in bond became an object of speculation, and it was the interest of the speculators to hold it back until the price rose to 31f. when the duty reached its lowest point, and their profit became the highest possible. If, for instance, the importer had paid 14f. the hectolitre, and sold it when the price was 28f., he had to pay a duty of 8½, and his profit was only 5½, but if he waited until the price rose to 31f., the duty fell to 43c., and he obtained a profit of more than 16½f. on each hectolitre. Thus it frequently happened that when the price rose to 31f., so large an importation took place as to produce a great fall in the price, and thus cause the ports to be closed against all further supplies. These effects of the law, which were often curious, have been fully described in Tooke's "History of Prices." The chief evil which they produced was, that they introduced such uncertainty into the corn trade that corn could not be regularly grown in other countries to supply the English market, and this must have tended to aggravate the scarcity produced by a bad harvest. Since the repeal of the Corn Laws, England has become a regularly importing country, and draws its supplies from all parts of the world. The increase of her population now depends on the progress of agricultural improvements throughout the world, and the great density of her population, which amounted in 1871 to 150 to the square kilometre, is due to the fact that her people are engaged in manufacturing and mining operations, which require much less space than agriculture in proportion to the number of people employed. If at some future time the world should find it more convenient to carry on its manufactures in some other country than England, the population of the latter may be diminished, but it would be rash to say that this result must follow on the exhaustion of our coalfields. It was once believed that England would be ruined if the supply of cotton were

cut off, but when this event actually took place the country still continued to increase in wealth and population, although there was great distress in some districts. As, therefore, we cannot foresee the industrial condition of the world at the time when our coalfields shall be exhausted, we cannot tell whether it will still be necessary for the world to supply England with food in order that she may carry on some new branch of industry.

Ireland presents us with a remarkable contrast to England, and with a well-authenticated instance of a diminution of population continuing for a long period. In 1841 it contained 8,000,000 of inhabitants, but these had been reduced in 1851 to less than 7,000,000, and in 1871 to less than 5,500,000. Those who believe that the populousness of a country depends on the character of its Government may think that this case confirms their views, and that this diminution is due to English tyranny. But if we extend our view over a longer period, we find that the population was always increasing up to 1841, and it cannot be said that the Government of England has become more tyrannical since that date than it was before. Indeed, there has never been any dispute that the potato blight was the prime cause of the diminution, and this was an evil which the Government had no power to prevent, although much might have been done to mitigate it by better rulers. It was physically impossible to obtain the usual quantity of food from the soil, and the people were forced to starve or emigrate. The diminution which has taken place since 1851 cannot be referred to the potato blight, but is obviously due to some permanent cause. Emigration is insufficient to account for it, since it does not produce this effect in England or Germany, and during the ten years 1861-71, the population of Ireland only diminished by 300,000, while it sent forth 800,000 emigrants. We can only account for the diminution by supposing either that some land has gone out of cultivation, or that a greater quantity of food has been exported.

Ireland does export corn and cattle, but not in such large quantities as to account for such a falling off in the population. It is, however, well known that a great extent of arable land has been converted into pasture, and this is sufficient to account for a great diminution of the population, as much fewer labourers are required to tend cattle than to till the ground. The repeal of the Corn Laws was the principal cause of the change, for, before their repeal, there was an artificial inducement held out to Irish farmers to raise corn for the English market. If it be considered that Free Trade has proved a curse to Ireland, it should be borne in mind that the population though numerous were miserably poor, and that the country is better fitted by nature for pasture than for

tillage. The famine, though it was the occasion, was not the cause of the depopulation, which would have taken place in any case when once the Corn Laws had been repealed.*

How great soever the improvements may be which agriculture is destined to receive, there must at length come a time when the earth will refuse to yield an increased quantity of food, and when this happens it will be impossible for the numbers of mankind to increase. We cannot foresee what their number will then be, but the limit must be reached long before it is so great as not to allow them standing room. Some writers speak as if this incapacity for further increase would be a great calamity, but there is no apparent reason for entertaining such an idea. The simple effect would be that each married couple would only produce on the average between two and three children, and France at the present time exhibits a state of things somewhat similar to this. Large families are much less common in France than in England, and the families of the upper and middle classes commonly consist of two children only. Yet nobody considers that the French are to be pitied on that account, and, although their numbers are slowly decreasing, they are rapidly adopting new methods of increasing the comfort which they already enjoy. Mr. Herbert Spencer† considers that as the expenditure of energy in procreation is brought to a minimum, more energy will be disposable in other ways, and that this very fact must of necessity increase the intellectual and moral capacities of the race. The time may come when the human race will be unable to obtain a sufficient supply of food, and, indeed, unless some cause not now known to be in operation interferes, the forces now at work in the solar system must at some future time produce this catastrophe. That a kitchen fire will go out unless fresh coals are put on is not more certain than that the sun will burn out unless it is perpetually supplied with fresh fuel, and we do not at present know any source from which an inexhaustible supply can be procured. With the extinction of the sun's light and heat, vegetable life and animal life, which depends upon it, must cease on the globe. But it would be a mere quibble to say that the extinction of the human race would be the consequence of over-population, since the same result would follow whether the world was fully peopled, or whether it only contained a single human being. There can never be more human beings in the world than there is food to support, and no increase or decrease of their numbers can render them more or less liable to extinction from the want of it.

* See the Fragments on Ireland in Cairnes' Political Essays, 1873.

† See the chapter on Human Population in the Future in the 2nd vol. of his "Principles of Biology."

CHAPTER V.—LAND.

NATURAL ADVANTAGES—DIFFERENCES OF FERTILITY—SYSTEMS OF LANDED TENURE.

The differences in the amount of wealth possessed by different countries are chiefly due to differences in the efficiency of their labour or in the amount of their capital, or, in other words, in the skill and knowledge of the people, or in their number. But there are still other differences, which are due to the natural advantages or disadvantages which the physical condition of a country affords to its inhabitants. Under the word land I mean to comprehend all the assistance which the soil, the climate, or physical conformation of a country affords to the labour of man. In this sense the land must be admitted to exercise an important influence in determining the degree of civilisation to which a people may attain, and the length of time which they will require in order to attain to it. It has often been remarked that all the ancient seats of civilisation were situated in alluvial plains, watered by large rivers, such as the Ganges, the Tigris, and the Nile. This fact is partly explained by the fertility which those rivers bestowed on the surrounding soil, which enabled the inhabitants to obtain food with much less labour than the people of other countries could do. This enabled them at a much earlier period to employ a portion of their number in other occupations than that of raising food, and manufactures and commerce were the natural result. Perhaps, however, the most important service which the rivers rendered was that of reducing the labour necessary for conveying goods from place to place. Even where the soil is not more fertile, the possession of advantages in the means of conveyance will enable a people to produce more than another people who are similarly circumstanced in all other respects. Where there is a great difficulty in conveying goods from place to place, food must always be raised in the immediate vicinity of those who are to consume it; but if a good system of communication exists, the raising of food may be confined to those localities which are best suited to it, and it may be conveyed to other places and support the people who are employed in producing other things. This principle may be illustrated by reference to many parts of India, where the want of roads is a great obstacle to the spread of cotton culture. There is much land which might be used for growing cotton, but the people cannot use it in this way, because they would not then be able to grow food for themselves or to obtain it from a distance. Each district is therefore obliged to pro-

duce its own food, and by doing so exposes itself to the danger of famine in the event of a bad harvest. Railways have as yet done little to rescue India from these fearful calamities, for there is still a deficiency of roads which are necessary for conveying food or other commodities from the railway stations to the people who require them. Thus the difficulty of conveyance prevents commerce from springing up, and the want of commerce prevents the development of good means of communication, and the people of India must require a long time to get over this difficulty. Those who dwell on the banks of the Nile or the Ganges, have a natural road provided for them, and thus one of the great impediments to the progress of industry is removed. Egypt and Northern India, therefore, were rich and civilised when Northern Europe was poor and barbarous, because it was more easy for men to produce wealth in the former countries, and a shorter time was requisite for them to accumulate sufficient food to maintain the population of large cities. Where a country is so barren that the labour of one man, however skilfully conducted, cannot produce more food than is sufficient for himself and as many children as are necessary to keep up the number of the inhabitants, no marked improvement in the condition of the people can be worked out by their own unassisted efforts. The Bedouins can never rise above their present state of barbarism, unless some method is discovered of obtaining more produce from the soil of the desert, or unless they are conquered by some of their more fortunate neighbours, and are allowed to share in the industrial and intellectual advantages which other nations have acquired by a long course of industry. But if we except such extreme cases as the deserts of Arabia and Africa, and the icy regions of the Arctic circle, we do not in general see much connection between the natural resources of a country and the wealth which it now enjoys. The wealth of England is attributed to the fact that it possesses coal and iron mines in close proximity to one another, which gives the people a great advantage in carrying on manufactures. But other countries which are equally well provided with mines are neither so populous nor so wealthy as England, and the mines which England now possesses have been there for untold ages before the earliest time to which the traces of the presence of man in this island can be referred. It is the progress of agriculture which has enabled the country to support a large population engaged in manufacturing and mining operations, and even if we had no mines these people would find some occupation. The insular situation of England must always have been an advantage, since it furnished her people with a ready means of communication with one another and with foreigners, and the sea has done for England much of what the Nile has done for Egypt.

Not only are there great differences between the natural advantages enjoyed by different countries, but the different parts of the same country, however small it may be, differ from one another in fertility and in all other circumstances which relate to the business of production. That different farms in the same parish, and that different parts of the same farm differ in fertility is a fact so well known that I need not bring any evidence to prove it, and it is a fact on which much of the reasoning in Political Economy depends. To say that different pieces of land differ in fertility is the same thing as saying that in some of them more labour is necessary to obtain the same product than is required in others. It is also a well-known fact that the quantity of produce which can be got from a given piece of ground is limited, although improvements of various kinds may considerably increase the quantity which it at present yields. If it were not so, as Senior says, one farm might feed all England. By drainage, or the employment of greater quantities of manure, the yield of wheat per hectare may be doubled or trebled, but there must be a limit to the number of plants which a given space of ground can support, and when this is reached no amount of industry can increase the yield. In such a country as the United States, where the farmers have an immense range of choice, they cultivate none but the best soils, because by doing so they can obtain wealth with the least possible labour. Where the commercial advantages are equally balanced between bringing fresh land into cultivation and bestowing more labour on the improvement of those already cultivated, a great number of men prefer the former course. The same outlay of labour may produce the same yield whether it is expended on the old land or the new, but in the former case there will not be so many persons actually engaged in agriculture as in the latter. If the improvement be effected by means of drainage or by the use of artificial manure, labourers would be employed in making the drainage pipes, or in preparing the manure, or in bringing it from a distance. Their labour would be most useful to the farmers, but they will not be actually employed in farming. The occupation of farming is so agreeable that it is followed by many persons without regard to pecuniary advantages, and among a nation of farmers such as the Americans it is thought better to employ nearly the whole energy of the people in cultivating the soil, and to obtain manufactured articles from other countries in exchange for their raw produce. When a country is so fully peopled that there is little waste land to bring under cultivation, it is necessary, in order that further progress may take place, to employ more labour in increasing the produce of the old land. Efforts, too, are constantly made to improve the means of transport, and so reduce the labour required for bringing the produce to market.

If two farms, which are alike in other respects, are situated at different distances from the town to which their produce is carried, it is evident that what is procured from the nearer of the two will be procured with less labour. It is equally evident that if two farms are equally distant from the town, the produce of the more fertile will be procured with less labour than that of the other. Similar differences manifest themselves in the productiveness of different mines, and it is obvious that the greater the depth to which a mine is worked, the greater must be the labour necessary to extract the metal or other substance which it contains. As everybody desires to obtain wealth by the least possible labour, men begin by cultivating the most fertile soils and by working the most productive mines, and proceed by degrees to the inferior ones. It is evident, therefore, that other things being equal, a large increase of the quantity of raw produce, whether vegetable or mineral, can only be obtained by the expenditure of a greater quantity of labour in proportion to the yield, since it must be necessary to work in less favourable circumstances.

Although similar differences are to be found in the comparative advantages of different manufactories, these are not so important as those which prevail in those branches of industry which have just been considered. A manufactory on the banks of a river, the water of which can be used to turn its machinery, is in a better position than one where steam power must be used, and a manufactory which is near to a port or a good line of railway is better off than one which is situated in a district remote from a large centre of population. But these differences are not of so much importance, because manufactories take up less room and can more easily be confined to the localities which are best suited to them, while agriculture, by its very nature, requires considerable space, and mining operations can only be carried on in those places where the materials have been deposited by the operation of natural causes.

There has been much controversy of late years respecting the merits of different systems of landed tenure; but the question is not one which it is within the province of the present work to decide. Political Economy, as its name implies, originally meant the art of disposing of the resources of a state to the best advantage; yet such are the changes to which words are subject, that the writers of the present time generally apply this name to the science of wealth, and consider political questions as more or less excluded from their view. Adam Smith devoted one of his five books to the consideration of different systems of "Political Economy," and the remaining four to the science of wealth, yet since the publication of his work, the subject to which he devoted the greater portion of it has assumed the title which he applied to the smaller portion, and because it was seen that a knowledge of the laws of the

production of wealth was necessary to the construction of good political institutions, the science which explains these laws has taken the place and assumed the name of the art to which it forms the necessary introduction. I am only following the usage of contemporary writers when I say that Political Economy has only to point out the effects of different systems of landed tenure, and not to decide which of them is the best. I have before stated that the question, What is the best size for a farm? is one of practice and not of theory, and the question, What is the best size for an estate? is one which it is utterly impossible to answer on theoretic grounds. In the first place, the question never has been or can be argued solely with reference to the production of wealth, and the political and social advantages of different systems cannot be discussed here. In the second place, if we look only to the production of wealth, Political Economy can only show the tendencies of different systems, and cannot decide how far these may prevail, or be counteracted in practice. Other things being the same, that system would be the best which gave the cultivator the strongest inducement to make improvements, and this argument would tell strongly in favour of peasant-proprietorship, *i.e.*, the system under which each labourer is the actual possessor of the land which he cultivates, and receives the whole of the produce. Where the labourers have to share the produce with capitalists, or with landlords, the motives to industry are in some degree weakened, since the labourer does not receive the full benefit of it, and a slight saving which he might consider worth making on his own account, seems to be not worth the trouble when the benefit is to be wholly or partly enjoyed by others. It is noticed, accordingly, that the land is most carefully tilled where the peasants are themselves the proprietors, as in Belgium, and in some parts of France; but the system which generally prevails in England, under which many farms belong to a wealthy landlord who does not himself cultivate them, has also some advantages which compensate for the less careful attention which is bestowed upon them. A rich man has more opportunities of learning what improvements have been introduced into agriculture in other districts than that in which he resides, and he is better able to make experiments to test the utility of novel suggestions. Where landlords have the power of raising their rents so as to appropriate to themselves the benefit of improvements effected at the expense of their tenants, they are generally restrained from doing so by their own sense of duty, or by public opinion; and the cases in which they exert their power are too exceptional to have much effect in deterring tenants from making improvements. It must be remembered, too, that landlords themselves frequently spend enormous sums in draining and otherwise improving the land. It is not merely untrue, but ridiculous,

to say that the fact that the land of England is generally held in large estates prevents a constant and rapid succession of agricultural improvements. It is equally untrue to say that the large number of small estates in France prevents the progress of improvement in that country. Whether farming is more skilfully conducted in France or in England is a question which agriculturists alone are competent to decide; but if their decision were unanimous, it would in no way decide the question whether the system of landed tenure was the cause of the difference, since there are so many circumstances which have at one time or other tended to accelerate or retard the progress of the two countries. Nothing can be more reprehensible than the miserable spirit which makes Englishmen and Frenchmen think that they cannot praise their own system without abusing that which prevails on the other side of the channel. We ought to regard other nations not as inferior but as simply different; and we ought especially to welcome every sign of improvement in the great and noble people of France, rather than to take a pleasure in sneering at every one of their institutions which is at all different from ours. The lovers of truth will find in the valuable work of M. de Lavergne, which I have so often referred to, abundant evidence that in agriculture, as in all other branches of industry, the French are making the most steady and gratifying progress, both in those parts of the country where large farms abound, and in those where small ones are the rule. As for the questions respecting the best mode of dealing with an estate in case of intestacy, or as to the power which individuals should possess of disposing of their lands after their death, there is little to be said here. It does not appear, as I have already said, that large estates have any marked effect in preventing improvements; nor is it by any means clear that primogeniture and entail as they operate in England, are the cause of large estates, or that the Code Napoleon, on the other hand, has had the effect of dividing France into very small estates. Under that code, individuals are only allowed to dispose of a portion of their property by will, and the greater portion of it is divided equally amongst all the children of both sexes. Some persons have, therefore, supposed that the effect must be to divide the land into smaller and smaller properties with each successive generation, and one ingenious writer foretold that at the end of a century the French would be dividing by logarithms an infinitesimal inheritance. But, as the population is all but stationary, there is no need of any great subdivision, and the shares of the husband and wife are equal to those of the father and mother. The law only provides that the property should be equally divided, and there is nothing to prevent one of the family from buying up the shares of his brothers and sisters, or the whole estate from being sold to

a stranger if it is found inconvenient to divide it. In the Southern States of America, individuals may dispose of their property by will as they please, but in case of intestacy it is equally divided among all the sons and daughters, and this arrangement is rarely set aside by the will of the parent. When slavery prevailed in the country it was found more profitable to have large plantations, and the eldest son usually bought up the shares of the rest, so that the plantations were not divided. Now that Emancipation has introduced a new order of things they are breaking up by division on the death of their owners, or by the sale of portions of them. M. de Lavergne computes that one-third of the cultivated soil of France, about 15,000,000 hectares, is possessed by 50,000 proprietors. Thus an extent of land equal to that of England and Wales is in the hands of landlords who have each on the average 300 hectares, or more than a square mile. It is true that an equal extent is in the possession of 5,000,000 small proprietors, who have thus three hectares a-piece. But the number of small proprietors was very considerable before the Revolution, and we may see how little that event has done towards the abolition of large estates. As for the obstacles which in this or other countries are placed in the way of the transfer of land, it has only to be remarked that all possible facilities should be afforded for transferring it from those who are incapable to those who are capable of using it to the best advantage. Where these obstacles arise from the cost of obtaining such deeds as will establish the title of the purchaser they are simply pernicious, and ought, on economic grounds, to be swept away; but when they take the form of taxes, which are required in order to provide a revenue for the State, those who pay them obtain the advantages of protection, which they must pay for in some way or other, and such taxes cannot be hastily condemned. The merits of different kinds of taxes will be considered in a later portion of this work; but I may say, in this place, the taxes on the transfer of land are by no means the most objectionable, and that they cannot be shown to have very injurious effects upon agriculture. To sum up this portion of the subject, I may say that the efforts of mankind to improve their condition are strong enough to triumph over all the obstacles which legislators place in their way, and though it may be useful to call attention to and demand the removal of these obstacles, it would be rash to say that their total removal would produce any marked improvement in agriculture.

BOOK II.—DISTRIBUTION.

CHAPTER I.—VALUE.

IMPORTANCE OF THE SUBJECT—MEANING OF THE TERM—MALTHUS AND RICARDO—CONTROVERSY RESPECTING THE MEASURE OF VALUE.

THE subject of value is of so much importance in Political Economy that it may be considered as constituting the very essence of the science. De Quincey says that the comprehension of the nature and cause of value constitutes the difference between Economists and those who have never studied the subject. Every step in the progress of the science has brought us nearer to a right understanding of the problem of value, and the great writers who have contributed to this progress have done so just in so far as their views on this subject have been clear and correct. Mill, while admitting its great importance, thinks that this has been exaggerated, and in proof of this, points to the fact that he has postponed the consideration of value until the commencement of his third book. If, he says, the subject had all the importance which has been attributed to it, he could not have explained the laws which govern production and distribution as he has done in his first and second books, before taking up the subject of value. But, unfortunately, this argument admits of being turned round, and it is just because Mill has thus deferred the explanation of value that he has been unable to explain the causes on which the rate of wages depends. I must, therefore, depart from his arrangement in this particular, and treat of value at the commencement of this Book, which I shall devote to the subject of distribution.

In speaking of value, Mill has well observed that "the smallest error on that subject infects with corresponding error all our other conclusions; and anything vague or misty in our conception of it, creates confusion and uncertainty in everything else."* But when he proceeds to add that "happily there is nothing in the laws of value which remains for the present or any future writer to clear up, the theory of the subject is complete," he makes a remark which, as Mr. Jevons says, it would be

* Book III., chap. 1, sec. 1.

rash to make in any science, and which, I may add, is particularly unfortunate, coming as it does at the commencement of one of the most vague and misty chapters to be found in any scientific treatise. McCulloch, too, observes, that De Quincey's "Dialogues of Three Templars in Political Economy" may be said to have exhausted the subject of value.* But although the debate has thus been declared closed, I venture to think that there is still much vagueness of ideas on this subject, even among Economists, which it is of great importance to clear away. If we examine popular expressions in which the word is used, such as "such a thing is of great value," "the papers are of no value to anyone but the owner," "gold is of more value than silver," we shall see that the word is used to denote the esteem in which things are held. That commodity is of the most value which is the most esteemed, and that is of no value which nobody cares to have. But if we carry our investigations further, we find some inconsistency in the use of the term, for we sometimes find air spoken of as being of great value, and sometimes as possessing no value. This inconsistency was commented on by Adam Smith as follows :—"The word value, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called 'value in use,' the other 'value in exchange.'"† Thus air may be said to have great value in use, because it is necessary to support life; but it has no value in exchange, because nobody has such an esteem for it as will induce him to undergo any labour, or to part with the product of labour, in order to obtain it. It is in this latter sense alone, Adam Smith tells us, that Political Economy is at all concerned with value. In order that the subject may be treated scientifically, it is necessary that some standard should be discovered by which to measure the value of commodities, or the esteem in which they are held. At the same time and place, nothing is more easy than to measure the value of different commodities, for we have only to ascertain what are their prices. Taking the smallest coin of any country as an object, the value of which approaches very nearly to zero, we may consider that a commodity which will not sell for more than this must be held in the lowest estimation, and the value of all other things may be conveniently measured in the coin for which they will sell. It is evident that if at the same time and place a coat will sell for as much money as three hats, it must be three times as valuable, for if people did not consider it worth three times as much as the hat, they would not

* Literature of Political Economy, p. 33.

† Wealth of Nations, Book I., chap. 4.

give that price for it. But when we have to compare different countries a satisfactory measure is not so easy to obtain. The mere difference in the denominations of the coin may, indeed, be got over, for as these are generally made of the same metals, we can ascertain their weight and compare the prices of commodities by referring to the weight of gold or silver contained in the coins for which they will sell. But this is not enough, for it is constantly stated that the value of money is different in different countries, and this would disturb our calculations, even when we were comparing countries which, like England and Australia, have the same coinage. If we were told that a pair of shoes sold for twice as much in Australia as in England, this would not be considered as a sufficient proof that an Australian valued a pair of shoes twice as highly as an Englishman, but the question may be asked whether the former valued gold as highly as the latter, or whether he only valued it half as much. The same difficulty is experienced when we have to compare different ages, and it is universally admitted that there was a great fall in the value of gold and silver in the 16th century, which prevents us from taking the prices at which commodities were sold before that time as a sufficient index of their value. We want something which shall serve as an universal measure of value, and Adam Smith has pointed out a simple and obvious one for us to adopt, viz., the length of time which a man will labour in order to obtain any given commodity. If we regard a thing as of very little value, we say "it is not worth picking up," or "it is not worth going back to fetch," or "it is not worth the trouble of making," and it is clear that the greater the value which we attach to a thing, the greater is the labour which we will perform in order to obtain it. Adam Smith, in his fifth chapter, has explained at great length, and with his usual ability, the fitness of labour to be employed as a measure of value. "The real price," he says, "of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it." That is to say, that every one has to acquire commodities by means of labour, and that the greater the labour which a person will expend on the procuring of an article, the greater must be the value which he attaches to it. As it is usual for labourers to receive wages in money, we can, by ascertaining the rate of wages and the price of a commodity, tell how long a man will labour in order to obtain it, and thus we are provided with a measure which is applicable to all ages and countries. If, for instance, we find that a pair of shoes costs twice as much money in Australia as in England, but that the rate of wages is also twice as high, we may conclude that shoes are of the same value in both countries, since in both of them labourers will only take the same amount of trouble in order to procure them. When

we find that an hectolitre of wheat could be procured by an English farm labourer in the time of Edward the Second for a sum which bore the same proportion to his wages as the price of an equal quantity of wheat bears to the wages of the same class at the present day, we may conclude that the value of wheat has remained stationary, since the people consider it to be worth the same trouble now as then. As the majority of mankind are labourers, a comparison of the price of commodities with the rate of wages affords as good a measure of their value as we could desire, but the rate of wages is not the same for all labourers, and we must, therefore, specify the employment which is to be taken as the standard. Adam Smith proposes to take the wages of common unskilled labourers as the standard, and to assume that the rates which prevail in other employments always bear the same proportion to that which is paid to common labourers. The assumption is not strictly in accordance with the fact, but this does not introduce any material error into the reasoning, since the common labourers are so large a class that they may be considered to constitute the whole society, and the value which they assign to a commodity may be taken as that which the people assign to it, and when any great variation takes place in the wages of that class it is sure to be accompanied by similar, though not, perhaps, equal variations in the wages of all other classes. There are, indeed, a small minority who do not labour at all, and it is not so easy to discover an equally satisfactory standard by which to measure the value which they attribute to commodities, when different times and places are compared. Adam Smith, however, suggests that the same measure may be used in their case also, since their wealth is only useful to them in so far as it enables them to obtain the services, or the products of the labour, of others. He says :—"The value of any commodity to the person who possesses it, and who means not to use or consume it himself but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command." Thus, the same sum of money may be considered to possess different values to a rich man, according as the rate of wages is high or low. A thousand francs are to a rich man living in England, where the rate of wages is $2\frac{1}{2}$ francs a day, of no more value than two hundred francs to a rich man in the island of Seram in the Malay Archipelago, where the rate is half-a-franc a day, since both are able, with these different sums, to command the labour of four hundred men for one day, or of four men for one hundred days, etc. This comparison will not give us any idea of the amount of comfort which these sums will enable their respective owners to enjoy, but as no better standard has yet been suggested for measuring the value which is assigned to money or other commodities by rich men in different

times and places, labour may be taken for this purpose, and the whole class is too small for an error in this matter materially to vitiate our reasoning. Thus the term value, as used by Adam Smith in his fifth chapter, and generally throughout his work, means the esteem in which a commodity is held, as measured by the quantity of labour which a person will undergo in order to obtain it, or which its possessor can, by the sale of it, obtain money enough to induce any one to undergo, and it is in this sense that it will always be employed in the present work. The word has, however, been used in a different sense by Ricardo, and his example has been followed by Economists in general. I know, indeed, of only one writer who has followed Adam Smith in this respect, and the book in which he has expressed his views has not met with much public recognition. I refer to Mr. John Cazenove, who has a chapter "On Labour as a Measure of Cost and Value" in his "Supplement to Thoughts on a Few Subjects of Political Economy," published in 1861, in which he explains the difference between the views of Smith and Ricardo, and sides with the former. All other writers have attempted to give an extension to the idea of price, which should include the metal in which price is measured, as well as all commodities for which it is paid. The price of a commodity is the quantity of gold or silver, or other substance used as money, for which it will exchange, and Economists have used value to signify generally the quantity of commodities for which gold or any other thing will exchange. If the price of a hat is 25 francs or 8 grammes of gold, this is said to be its value when measured in gold, and the value of a gramme of gold is said to be $\frac{1}{8}$ of a hat when measured in hats, and when no article is specified, the value of a hat is said to be the relation which it bears to all other commodities, as shown by its capacity of exchanging for them, and the value of a gramme of gold is said to be its power of purchasing commodities in general. Unfortunately, this extension can only be effected by depriving the word of all meaning. The human mind can only compare two things at once, and when it is said that a commodity has a certain power of purchasing all other com modities, the words, though they may be pronounced, written, and printed, do not really present any idea to the mind. The power of gold to purchase silver is a definite idea, and so is its power to purchase copper; but the power of gold to purchase silver and copper means nothing at all. We may, indeed, say that gold has greater power of purchasing than either silver or copper, because we mean that gold will purchase more of any given commodity than silver will, and more than copper will; but we cannot say what is the ratio of its power to those of the two other metals. Historians, in speaking of the changes

which have taken place in the value of the precious metals, endeavour to show that they would formerly purchase more of other commodities than they do at present. Thus Hallam, after mentioning the prices of corn and cattle in England in the 13th century, says:—"We can hardly take a less multiple than about thirty for animal food, and eighteen or twenty for corn, in order to bring the prices of the 13th century to a level with those of the present day. Combining the two, and setting the comparative dearness of cloth against the cheapness of fuel, and many other articles, we may perhaps consider any given sum under Henry the Third and Edward the First as equivalent in general command over commodities to about twenty-four or twenty-five times their nominal value at present."* But, in reality, we cannot strike an average of this sort, since we have no standard by which to measure the comparative importance of different articles, and we can only say that the same nominal sum of money would then purchase thirty times as much meat, and eighteen or twenty times as much corn, and that with regard to other commodities different proportions prevail; but to say that the general command over commodities which the same sum gave to its owner was twenty-four times as great as at present, is merely to substitute a guess for an historical fact.

Mr. Jevons has been the first to point out that if value be the power of exchanging, it is necessary to mention some other commodity with which the commodity in question is compared, but that Economists frequently speak of the value of a thing without mentioning any other thing with which it is compared. "Value of exchange," he says, "expresses nothing but a ratio," and "to speak simply of the value of an ounce of gold is as absurd as to speak of the ratio of the number 17," (p. 83.) The case is not mended, if we use value to express the ratio which a commodity bears to all other commodities, as this conveys no more idea than the ratio of the number 16 to numbers in general. The number 16 has a certain ratio to the number 8, and another to the number 4, but it has no ratio to the two together, though it is greater than either of them, and in the same way it is half of the number 32, and one quarter of the number 64; but no idea would be conveyed to the mind if we were to speak of the ratio which it bears to the numbers 8 and 32, and still less if we were to speak of its ratio to numbers in general. Mr. Jevons, accordingly, proposes to give up the use of the word altogether, and to substitute the phrase "ratio of exchange," but this is tantamount to giving up the problem as insoluble, an act of despair which no student of

* Middle Ages, Vol. III., p. 368, 2nd ed., 1856.

science can willingly submit to. Mankind have found it necessary to coin the word value and to use it without referring to any commodity in which it is to be measured, and they have referred to Political Economy to ask what is the idea which they desire to express by the word, and Political Economy has no right to give up the problem, and to tell them that the word means nothing. I have endeavoured to explain the meaning which Adam Smith attached to the word, which it appears to me has been completely missed by all writers except Mr. Cazenove, who, accustomed to use it in a different way, have supposed that he used it in the same sense as they did. It must be admitted that his language is not so well framed as it might have been for the purpose of preventing such a misconception. The passage which I have quoted above, in which he says that value in exchange is the power of purchasing commodities, has been often quoted, as was very natural, to show that he considered the value of a commodity to be its power of purchasing all other commodities, in the sense in which it is understood by other writers. I think, however, that any one who will read the fifth chapter, and will then examine the passage in question, which is placed near the close of the fourth chapter, will see that his meaning was somewhat different. What he meant to say was that a thing cannot possess value in exchange unless it has the power of purchasing or exchanging for other things; but this is not quite the same as saying that the value of a commodity is the ratio which it bears to all other things for which it is exchanged. When, for instance, he says that gold has value, he means that gold will be taken in exchange for silver, or for copper, or for any other commodity; but he does not mean that the value of gold is the ratio in which it is exchanged for silver and copper, and all other commodities; but he always says that its value is equal to the quantity of labour which it enables its possessor to induce others to perform for him. Although the fifth chapter of the "Wealth of Nations" is one of the most masterly in that masterly work, and although it is marked throughout by a lucidity which has been seldom equalled and never surpassed in the literature of Political Economy, it has yet been as completely misconstrued as the most obscure passage in any Greek or Hebrew manuscript. This has been owing to the fact, that all the hundreds and thousands who have read it have come to it already accustomed to use the word value in a certain sense, and that this has prevented them from seeing that he used it in a totally different one. As he did not foresee the way in which his language would be construed, he has not taken sufficient care to explain the difference between his mode of using the word and theirs, although the latter was common even in his time. The most unfortunate expression which he allowed himself to use was that of "value of labour,"

which, though it did not produce any confusion in his own mind, has given colour to the belief that he regarded labour as a commodity to be bought and sold like all other commodities, and has rendered it difficult for other writers to understand on what grounds he held that labour alone never varied in value. The following passage explains the reasons which led him to adopt this opinion:—"Equal quantities of labour, at all times and places may be said to be of equal value to the labourer. In his ordinary state of health, strength and spirits, in the ordinary degree of his skill and dexterity, he must always lay down the same portion of his ease, his liberty, and his happiness. The price which he pays must always be the same, whatever may be the quantity of goods which he receives in return for it. Of these, indeed, it may sometimes purchase a greater and sometimes a smaller quantity; but it is their value which varies, not that of the labour which purchases them. At all times and places, that is dear which it is difficult to come at, or which it costs much labour to acquire, and that cheap which is to be had easily, or with very little labour. Labour, therefore, never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared." The obvious meaning of this passage is that a day's labour is esteemed an equal hardship by him who has to undergo it in all times and places, and yet Ricardo has endeavoured to show that the value of labour varies by stating that the labourers sometimes receive a greater and sometimes a smaller quantity of corn and other commodities. The word value is not used by Adam Smith quite in the same way when applied to labour as when applied to commodities, since in the former case it implies an unfavourable, and in the latter a favourable estimation. Warned therefore by his example, I shall avoid the use of the expression "value of labour," the more especially as I wish to abstain from treating labour as a commodity, my objection to which is not a merely verbal one, but is founded on the inconvenience of classing in the same category two things so utterly unlike as the material articles which we labour to obtain, and the labour which we expend in obtaining them.

Fifty years ago a controversy was carried on between Malthus and Ricardo respecting the fitness of labour to be employed as a measure of value, of which it is necessary for me to give some account, and the arguments in which I must carefully examine, both in order to answer the objections which were then made to the use of such a measure, and in order to bring out more clearly the meaning of Adam Smith. Before doing so, it is necessary to make a few remarks respecting those eminent writers, in order that it may be distinctly understood that I have no intention whatever of impugning in any way their claim to be considered

as great masters of the science. Each of them criticised the arguments of the other with the freedom which the subject required, and without in the slightest degree diminishing their mutual esteem or personal friendship; but other writers who have taken part in or referred to the controversy seem to have imagined that they could only show that they were convinced by the arguments of the one by impugning the honesty or the intelligence of the other. My own opinion, the grounds for which will be presently explained, is that neither of them really understood the point in dispute, and I can only compare the controversy to a discussion among a party of blind men respecting the best mode of measuring the gradations of colour. But while saying this, I must gratefully acknowledge that it is to their writings that I have been in a great measure indebted for the arguments which have led me to this conclusion. If, while standing on their shoulders, I am able to see further than they could, it would be the height of folly and ingratitude to forget that it is to them I owe the elevation, and to arrogate to myself any superior merit on account of my more extended view.

Of Malthus I need say but little, as I have already expressed my regret for the foolish calumnies with which he has been assailed, and his writings, with the exception of the Essay on Population, have not exercised much influence on the progress of the science, and are but little read at the present day, so that any error which they may contain is comparatively harmless. But the case is far otherwise with Ricardo, whose theories have been so generally adopted by succeeding writers that there are even now but few Economists whose views differ materially from his, and every innovation in the science must partake more or less of the character of a revolt against Ricardo. While taking part in such a revolt, I wish at the same time to express my deep sense of the immense service which he has rendered to the science, and the benefits which every student must derive from the perusal of his immortal work. He has been so absurdly attacked by men who were unworthy to mend his pens, that some distinguished Economists have been driven into the other extreme, and have extolled as great discoveries the fallacies and truisms into which he was sometimes led, so that the task of fairly criticising his writings is rendered doubly difficult. The peculiarity of his method was that he took no pains to see whether the facts coincided with the results of his reasoning. Buckle has pointed out that a philosopher who pursues the deductive method may greatly outstrip the knowledge of his time, and may discover principles whose accuracy cannot be tested until fresh facts have been discovered at a much later time, and this has been exemplified in the case of Ricardo. But he was not singular in the use of the deductive method, which is the only one that is or can be employed in

this science, as has been shown by the late Mr. Cairnes in his "Logical Method of Political Economy," but he differed from other writers in not adducing facts in illustration of his reasoning, and thus he was often led into serious errors. An economic law cannot be disproved by being shown not to agree precisely with the facts, but if there is a great discrepancy between the theoretic conclusion and the actual fact, this should induce the reasoner to examine carefully every link in the chain of his reasoning, in order to make sure that he has committed no mistake. But Ricardo not only did not bring his theories to the test of fact, but he often ventured without enquiry to assert that the facts were what, according to his theory, they ought to have been.

Adam Smith's method was as purely deductive as Ricardo's, but his habit of adducing historical and other facts in illustration of his reasoning saved him from being led away into any extravagant conclusions, as Ricardo frequently was from the want of a similar check. Ricardo's indifference to facts frequently enabled him to grasp a principle whose action is much obscured by a host of modifying causes, and thus to enrich the science with more discoveries than any other writer, but as Mr. Ruskin warns the student of art to follow Titian and not Rembrandt, so the student of Political Economy should rather take as a model Adam Smith, in whom all the qualities which make up a great Economist are harmoniously blended, than Ricardo, in whom one alone has been so remarkably developed. Every reader of Ricardo has remarked his obscurity, and his admirer, De Quincey, has excused it as the infirmity of a great mind, which cannot bear constantly to repeat all the links in the argument, and supposes the reader to be capable of doing it for himself. But the obscurity is really due to the confusion in his own mind, and he has used the words value and wages in two or three different senses, because he did not really understand what they meant. Such obscurity there must always be in the early stages of a science, and the popular notions on every subject are at first confused, while it is the function of science to substitute clearness for confusion, order for chaos. In asserting, therefore, that he was sometimes obscure, I do but assert that the science had not in his time attained perfection. The Malays and the Papuans were confounded together by inattentive observers, but Mr. Wallace, after spending some years in the Malay Archipelago, has shown that they differ from one another as widely as the Englishman differs from the Negro. A foreigner on first landing in England thinks that all the inhabitants of these islands speak the same language, but if he studies the subject as a philologist, he finds that the people of Wales and of the Highlands of Scotland speak languages which are radically different from English, and that what is called the English language

embraces many dialects which are spoken in different counties, and which differ considerably from one another. In the same way, the more Political Economy is studied the more evident it becomes that such terms as value, wages, and capital include several different things which it is the task of science to keep distinct, and early writers partake more or less of the confusion which this involves. The truisms in which Ricardo sometimes indulged are in like manner the inevitable consequence of the imperfect state of the science in his time, for Comte has shown that in every science the metaphysical stage must precede the positive, and Political Economy is no exception to the rule. Although I shall endeavour to show that some of his theories are unsound, and that they do not explain the phenomena, I do not, therefore, think that they have been useless, for they have afforded a means of classifying facts, and the impossibility of making them include a large and increasing number of facts has at length led Economists to question the accuracy of his reasoning. Here, as in every other human undertaking, success can only be obtained after many failures, and his failures have put others on their guard against committing the same, and have driven them into the right path by stopping up all the wrong ones. Having thus given my opinion of the merits and defects of Ricardo, I shall proceed without further apology to point out what appear to me to be his errors, and shall give to his opinions nothing more than the respectful examination which is all that he would have expected or desired.

Adam Smith wished to take labour as the measure of value, but nothing had been done in his time towards the collection of the rates of wages which were paid at different historical periods, and he therefore proposed to use the price of corn for this purpose, but only provisionally until the want of statistics had been supplied. He had observed that its price bore a tolerably constant relation to the rate of wages when long periods were compared, but he was well aware that it was a very imperfect measure which he only used for want of a better. Malthus, in his "Principles of Political Economy," published in 1820, proposed to take both corn and labour into account when estimating changes in the value of the precious metals or other things, but his opinions were subsequently modified, and in 1823 he published a pamphlet entitled "The Measure of Value Stated and Illustrated," in which he proposed to take labour alone for this purpose. Both Malthus and Ricardo understood by value the power of purchasing all other commodities, but neither of them was the first to give this meaning to the word. Hallam's work on the Middle Ages, in which it is thus used, appeared in 1816, before either of them had published a general treatise on the science. As they had observed that a commodity falls in price when an improvement is

introduced which enables it to be produced with less labour, they supposed that the proper standard of value would be some commodity which is always produced with the same labour, but which would exchange for greater quantities of those which were more easy, and for smaller quantities of those which were more difficult, to produce. The object of Malthus's pamphlet was to show that the value of labour is constant, because it would always exchange for the same quantity of such an imaginary substance supposed to be always produced at the same cost. Thus he used the expression "value of labour" in a very different sense to that of Adam Smith, but the fact which he states is true, and if he had proved it he would have made an important addition to the science. But the argument by which he attempted to establish it proves nothing more than that if any number is subtracted from ten, and then added to the remainder, the sum of the two would always be ten, a fact which, however necessary it may be to impress it on the mind of a child learning arithmetic, throws no light on the matter. To show that this is no caricature, but a simple statement of his argument, I give the table on which he relies to prove his point.

Table Illustrating the Invariable Value of Labour and its Results.

1	2	3	4	5	6	7	8	9
Quarters of corn produced by ten men.	Yearly corn wages to each labourer.	Yearly corn wages to the whole ten men.	Rate of profits under the foregoing circumstances.	Quantity of labour required to produce the wages of ten men.	Quantity of profits on the advances of labour.	Invariable value of the wages of a given number of men.	Value of 100 quarters of corn under the varying circumstances supposed.	Value of the product of the labour of ten men under the circumstances supposed.
	Qrs.	Qrs.	Per ct.					
150	12	120	25	8	2	10	8.33	12.5
150	13	130	15.38	8.66	1.34	10	7.7	11.53
150	10	100	50	6.6	3.4	10	10	15
140	12	120	16.66	8.6	1.4	10	7.14	11.6
140	11	110	27.2	7.85	2.15	10	9.09	12.7
130	12	120	8.3	9.23	0.77	10	8.33	10.8
130	10	100	30	7.7	2.3	10	10	13
120	11	110	9	9.17	0.83	10	9.09	10.9
120	10	100	20	8.33	1.67	10	10	12
110	10	100	10	9.09	0.91	10	10	11
110	9	90	22.2	8.18	1.82	10	11.1	12.2
100	9	90	11.1	9	1	10	11.1	11.1
100	8	80	25	8	2	10	12.5	12.5
90	8	80	12 5	8.88	1.12	10	12.5	11.25

It will be seen that Malthus seeks to illustrate the working of the principle that the value of labour remains unaffected by changes in the rate of profit. In the first line he assumes the rate of profit to be 25 per cent., and tells us that in such a case the cost of producing the wages of ten men will be represented by the wages of eight men, and the profit of the capitalist who employs them, which, at the rate of 25 per cent., is equal to the wages of two men. This is the same thing as saying that the value of the products which constitute the wages of ten men is shared among the capitalist and labourers who produce them, and that if we know the proportion of the capitalist's share to that of the labourers' we can tell how much each class will receive. In the second line he assumes that the rate of profit is 15.38 per cent., and infers, correctly enough, that the value of the product which constitutes the wages of ten men would be shared between the labourers and the capitalist in the proportion of 8.66 to 1.33. So in all the other lines which make up the table a certain rate of profit is assumed, and it is pointed out that as the capitalist's share varies inversely as that of the labourers', the total sum is always the same, and the number ten is repeated through the whole of the seventh column. This, however, does not prove that the value of labour is constant, and, if it did, a similar course of reasoning would serve to prove that the value of any article is constant. Whatever be the cost of producing ten kilogrammes of gold, it is obvious that the value of the product is shared between the capitalist and the labourers (rent being left out of the account as is done in Malthus's table) and that if the rate of profit be 25 per cent., the labourers would receive eight kilogrammes and a capitalist two kilogrammes. So, if the rate were 15.38 per cent., the labourers would receive 8.666 grammes, and a capitalist 1.333 grammes, and so on with all the variations of profit imagined by Malthus, the total of their receipts being always ten kilogrammes. It hardly needs pointing out that in whatever sense the word value be used such an arrangement could not prove that the value of gold was constant, and yet it would be precisely analogous to the argument of Malthus.

It is much to be regretted that he did not prove his conclusion, for it was a correct one, and would have been of great use if he had proved it, for, as he points out, the employment of labour as a measure of value might enable us to decide a controversy which excited much interest in his time, and which cannot be said even now to be settled. In the year 1810 a great difference was observed between the Mint price and the market price of gold bullion, or in other words, the notes of the Bank of England which the Bank was not then bound to cash at the pleasure of the holder, would purchase much less gold coin than they professed to represent. The question was whether it was the gold or the notes which had altered

in value, and Malthus suggested that a comparison of the rates of wages which prevailed before and during the time at which the notes were below par would settle the question. If the labourers received the same sum in notes which they had formerly received in gold, this would prove that gold had risen in value, while if they received a larger sum in notes which would only exchange for their former quantity of gold, this would show that the paper had fallen in value. Malthus tells us that he was not in possession of sufficient information of the changes in the rate of wages to decide this point; but if his reasoning had been such as to satisfy Tooke, the latter might have turned his indefatigable industry to the collection of the necessary statistics, and thus have placed the point beyond dispute.

As I have said, Adam Smith and Malthus used the phrase "value of labour" in two different senses, but, as if to make confusion worse confounded, De Quincey has used it in a third sense, and means by it the proportion of the whole product of industry which is received by the labourers, as distinguished from that received by the capitalist. With him the value of labour is high when the labourer receives a large proportion of the product, and low when he receives a small proportion. In the chapter on profit I should have to consider whether in point of fact the proportion of the product of industry which is received by the labourers is really different in different stages of society, but it is a legitimate hypothesis, and affords an excellent opportunity for showing the difference between the meaning which Adam Smith attached to the word value, and that which is commonly assigned to it. De Quincey's argument (that of "X. Y. Z." into whose mouth his opinions are put in his "Dialogues of Three Templars") is as follows, the figures only being altered for the sake of convenience, but the meaning being preserved. If the wages of journeymen hatters are 5f. a day, and the rate of profit be 50 per cent., a hat which requires four days to make will sell for 30f., the labourer receiving 20, and the capitalist 10 or 50 per cent. If the value of labour rise, so that the labourers receive four-fifths instead of two-thirds of the product, the rate of wages will then be 6f. a day, and the labourer will receive 24f. for making a hat with four days' labour, and the capitalist will receive 6f. or 25 per cent., and the price of the hat will still be 30f. De Quincey therefore tells us that the hat does not vary in value, and that labour is not fit to be used as a measure of value, because its own value may vary without any corresponding variations in the value of other things. But here lies the difference between his theory and that of Adam Smith. The hat does not vary in price, and will not exchange for more of anything else, for the fall of profit is supposed to be universal, and does not affect the relations of commodi-

ties to one another, but the value of the hat does fall. In the first case, when the rate of wages was 5f., a journeyman had to work six days in order to obtain a hat; and, in the second case, he has only to work five days, so that he now considers it not to be worth so much trouble, and in the eyes of the whole people it possesses less value. The radical difference between the meanings which Adam Smith and Ricardo attached to the word value, render it impossible for the latter to understand the meaning of the former. He (Ricardo) says, that if corn falls in value in consequence of some improvement in production, the corn wages of labour will fall in consequence, and that it must be labour which has varied in value, and not the things to which it is compared. But Adam Smith only said that a day's labour is always esteemed an equal hardship by him who has to undergo it, and is therefore of equal value *to the labourer*, and it is no answer to say that it will sometimes procure him a smaller and sometimes a greater quantity of corn or other things; a fact which Adam Smith admitted. The very object of a measure is to stand in different relations to the different things with which it is compared. To say, therefore, that labour is not fit to be used as a measure of value because it sometimes exchanges for a smaller and sometimes for a greater quantity of corn or of other things, is like saying that a thermometer cannot be used as a measure of heat because the mercury rises when it is plunged into a boiling kettle, and falls when it is plunged into an ice-pail. What would be thought of a draper who should say that he had given up the use of a measure altogether because all those that he had tried told him that some pieces of cloth were ten metres long, others five, and others twenty? The fact is, that Ricardo, and all those who follow him, do, though without knowing it, use the word value in two different senses. They first use it to mean the power of a commodity to exchange for all other commodities; and then, when they find that two things do not stand in the same relation to each other as formerly, they inquire which it is that has altered in value, but the question is unmeaning if value be taken in their sense. If a kilogramme of gold would formerly exchange for ten of silver, and will now exchange for fifteen, each is altered in relation to the other, and the question, which is it that has altered? is as puerile as the celebrated discussion of the schoolmen, whether a hog which a man carries to market at the end of a rope is carried by the rope or by the man. When they say that it is gold, for instance, which has varied, they mean that gold is produced with more labour; but this is not included in their definition of value, but is a very different question. Ricardo, though in perfect good faith, puts a case as an objection to Adam Smith, which begs the very question in dispute, for he says:—(the italics are mine):—"If

I have to hire a labourer for a week, and instead of ten shillings I pay him eight, *no variation having taken place in the value of money, &c.,*" when the very point in dispute is whether this fall of wages is a rise of one quarter in the value of money. He puts an imaginary case in which a labourer is able to buy more corn and less fuel, soap, candles, tea, sugar, salt, &c., and triumphantly asks:—"Will labour have risen or fallen in value?" Risen, Adam Smith must say, because his standard is corn, and the labourer receives more corn for a week's labour. Fallen, must the same Adam Smith say, because the value of a thing depends on the power of purchasing other goods which the possession of that object conveys, "and labour has a less power of purchasing such other goods." (Chap. 1, sec. 1.) But Adam Smith would reply that labour has neither risen nor fallen in value, for it is considered just as irksome as it was before, but that corn has fallen, and other things have risen in value. There cannot be a greater mistake than to suppose that Adam Smith used corn as a measure by which the value of labour itself was to be tested, and he distinctly states that he only used it as a measure of value, because the rates of wages at different times could not be easily ascertained, while the price of corn had been more frequently noticed by historians and other writers. The definition of value as a power of purchasing accords but ill with the idea of a general rise or fall of values, and it is curious to notice the different ways in which different writers have encountered this difficulty. De Quincey admits that such a thing may take place, but not seeing what to make of it, thinks it prudent to say no more about it. Senior says that when a general rise or fall is spoken of, some one commodity must be excluded, with which all the others are compared. When it is said, therefore, that all commodities are of less value now than in the time of Queen Elizabeth, he thinks that this must mean all except the commodity labour, as if this were a thing of the same kind as hats and shoes. Mill, however, says that the idea of a general rise of values is an absurdity, and this is perfectly true in the sense in which he uses it, since it is impossible that everything should purchase more of everything else. But as Adam Smith uses it, a general fall of values, though not very probable, is quite possible, for labour may become more efficient in all trades, and everything may be procured with less toil. Having now, as I hope, sufficiently explained the nature of value, I shall endeavour in the next chapter to explain the causes on which it depends.

CHAPTER II.—CAUSE OF VALUE.

GENERAL CAUSE OF VALUE—MANUFACTURED GOODS—RAW PRODUCE—MARKET VALUE—SUPPLY AND DEMAND, UTILITY, COMPETITION.

VALUE I have defined to be the esteem in which commodities are held, as measured by the quantity of labour which will be given in exchange for them. To explain why a given commodity has a given value is to answer the question ;—Why does its possession enable its owner to command the labour of others for so many days ?—or, which is the same thing,—Why is it necessary for the labourer to spend so many days' wages in order to procure the commodity in question ? Thus value and wages are the same phenomenon seen from two different points of view, and the answer which naturally suggests itself to both questions is—Because it has required just so many days' labour to produce the commodity. This is, with some necessary qualifications, the explanation which I have to offer. I will assume for the present that all labourers are of equal skill and are all free to change their employment, and that all kinds of labour are equally agreeable, and under these circumstances it is absolutely true that an article, such as a pair of shoes, which it has taken six days to produce, would always exchange for six days' labour. This is a necessary deduction from the principle that all men desire to obtain wealth with the least possible labour, for it is evident that a tailor will not give seven days' labour, or the product of seven days' labour, for a pair of shoes which he could make in six days, and it is equally clear that a shoemaker would not give a pair of shoes to the tailor for working five days, when he could do as much work himself in five days as the tailor could, for this would be working six days to obtain what he could get by five days' labour. As two things which are equal to the same thing are equal to each other, it follows that two things which are produced with equal quantities of labour will exchange for each other, since each will exchange for the same quantity of labour. Ricardo's theory of value extends no further than this, and merely says that two things which are produced at the same time and place with equal quantities of labour will exchange for each other, and will possess equal power of purchasing other things. He refused to admit that a commodity would always exchange for as much labour as had been necessary to produce it, and contended that it might and did happen that an article required more labour than formerly to produce, and yet exchanged for the same quantity of it as before.

Before examining his argument, it will be necessary to enter more fully into the circumstances which surround, and, in some measure, obscure the working of the abstract law which has been enunciated above. If a rich man hires a person to pick blackberries for him, the price of the blackberries and the wages of the gatherer are the same thing, and the blackberries are worth exactly as much labour as it takes to collect them. If, however, the consumer buys the blackberries from a tradesman who has previously employed other people to gather them, the price is somewhat more than what is paid to these labourers. There is of course the labour of the tradesman himself to be remunerated, and he charges more for the blackberries which he does sell, in order to compensate for what he loses by those which he does not sell. Taking both these circumstances into account, we might still say that the value of the whole quantity of blackberries sold is equal to the whole quantity of labour expended in gathering them and in bringing them within the reach of the consumer; but there still remains another element of value to be accounted for. If the tradesman took no part in the actual work of handing the fruit across the counter, or even of superintending those who performed it, the price of the fruit would still be such as to leave something over after paying the wages of all those who had been employed in gathering or selling them. This surplus would be received by the tradesman in respect of the capital which he had employed in maintaining the various labourers engaged in the work, and would be the reward, not of any labour, but of the abstinence which he had practised in forbearing to consume his capital. If he had chosen to employ his capital in maintaining labourers who produced things for his own enjoyment, he would have had his pleasure then, but if he consents to forego it for a time and employ his capital in producing goods for the use of others, he receives as compensation some quantity of commodities every year, the value of which bears some relation to the amount of the capital which he employs. I may assume that this relation is that of one to twenty, or five per cent. per annum, and then a commodity which requires the labour of twenty men for a year to produce will exchange for the labour of twenty-one men. The law, therefore, may be more correctly expressed by saying that the value of a commodity is determined by the amount of labour and abstinence which are required to produce it, but there is still a further qualification which needs to be added. Commodities of the same kind are not all produced with the same expenditure of labour, and yet they have the same value. It is a familiar expression that there cannot be two prices in one market, which means that two barrels of flour, for instance, the quality of which is known or believed to be the same, if exposed side by side in the same

shop, will sell for the same price. This follows inevitably from the principle that every one desires to obtain wealth with the least possible labour, for no one would give a higher price for an article when he could obtain another equally good by paying a lower price, since the larger sum of money must have been obtained with more labour than the smaller sum. As, therefore, different soils in the same country are of different degrees of fertility, the corn and other products raised from them are obtained with different amounts of labour, but, as all the products of the same kind possess the same value, it is necessary to decide which of them determines the value of the rest. It might at first be thought that the value would be determined by the average, and that if half the wheat in the country were raised in such circumstances that the labour of each man produced twenty hectolitres, and the other half in such circumstances that the labour of each man yielded ten hectolitres, the value of fifteen hectolitres would be equal to a year's labour, but a little consideration will show that this would not be the case. If it were, the labourers who worked on the inferior soils would give a quantity of corn which it had taken them a year-and-a-half to produce in exchange for a year's labour on the part of some one else, and they would manifestly lose by the exchange, since they could, by working for themselves, obtain as much of any other thing in a year as they could in exchange for their corn. The value of wheat, therefore, must be such that ten hectolitres will command a year's labour, and when this is the case no labourer will have anything to gain by changing his trade. If a tailor is dissatisfied with the quantity of wheat which he receives, he cannot obtain more by turning farmer, for this will only enable him to produce ten hectolitres for himself, which is just what he received before. All the superior soils are already occupied, for otherwise the farmers would not cultivate the inferior ones, and he must therefore content himself with one of these latter. The law, therefore, may be rendered still more correct by saying that the value of a commodity depends on the labour and abstinence which are necessary to produce it in the least favourable circumstances. The amount of abstinence is in proportion to the amount of the capital, which again is in proportion to the amount of labour employed, so that if the amount of labour required to produce a certain commodity be greater at one time or place than at another, the abstinence is greater also, and the value increases in proportion to the labour employed. If we were considering the case which Bastiat was so fond of quoting, that of Robinson Crusoe, it would be a truism to say that the things which he produced were worth as much trouble as he took to produce them, for this is implied in the very fact of their production. The truth which the law expresses is, that all labourers, in whatever

trade they are engaged, obtain commodities with the same amount of labour as those who actually produce them; and this, though deducible from the principles of human nature, is by no means self-evident, and has often been explicitly or implicitly denied. In practice it often happens that the price at which a commodity is sold is not sufficient to remunerate all the labour which has been employed in producing it, and on the other hand, it is often more than sufficient to do this; but neither of these cases can be permanent, and the production of the article in question will be abandoned in the one case, while in the other its value will be reduced by means of competition. The value which is equivalent to the cost of production (*i.e.*, the labour and abstinence employed), has been termed the "natural" or "normal" value, and the actual market value, if it does not always correspond to the natural value, oscillates within narrow limits above and below it. When we find, as in London at the present time, that 10 grammes of gold will exchange for more than 1000 kilogrammes of coal, we may be sure that it requires a hundred thousand times as much labour to procure a given weight of gold as to procure the same weight of coal. If from any cause it becomes more difficult to produce a particular commodity than it has formerly been, its value must rise so as to be equal to the increased amount of labour employed upon it, unless, indeed, its production be altogether abandoned. It has now become more difficult to procure oysters than it was a few years ago, and their price has risen five or six fold, while wages are but slightly higher than they were before, so that they will exchange for more labour. It is well known that the price of cotton rose considerably during the period of the civil war in America, because in no other part of the world could so large a quantity of cotton be raised with so little labour as in the Southern States of America, which were prevented by the war from pursuing this, their usual occupation. When any improvement is introduced in manufacturing industry which enables the same number of labourers to produce a greater quantity of goods, their price is lowered, while the rate of wages remains the same, or does not fall in proportion, and the goods exchange for less labour. Babbage mentions (in his Economy of Machinery and Manufacture, chap. 17) that the price of a gross of bed screws at Birmingham had been reduced from 22f. 50c. in 1818 to 7f. 50c. in 1828, being a reduction in ten years to one third of its former rate, in consequence of various improvements in the method of producing them. Whatever alteration may have taken place in the rate of wages during the same interval, there certainly was not a fall of equal extent. When any district enjoys peculiar facilities for producing a particular article, its value is lower there than in other less-favoured districts. Wine can be produced in

France with less labour than in England, and it exchanges for less labour there than it does here, and gold exchanges for less labour in Australia, where the mines are exceedingly fertile, than in Germany, where it can only be extracted from the sands of the Rhine with much more labour in proportion to the yield. If a commodity could formerly be produced with the labour of three men for a day, it must have exchanged for three days' labour, but if it now requires the labour of three men for three days, it will exchange for nine days' labour, as will appear when its price is compared with the rate of wages. That the production of a commodity cannot be continued unless its price is sufficient to pay the wages of all the labourers employed, is so obvious that it seems hardly to require proof, and yet Ricardo has denied what is a necessary consequence of its truth, that a commodity must exchange for more labour if it requires more to produce it. He says :—"In the same country double the quantity of labour may be required to produce a given quantity of food and necessaries at one time, that may be necessary at another, and a distant time; yet the labourer's reward may possibly be very little diminished. If the labourer's wages at the former period were a certain quantity of food and necessaries, he probably could not have subsisted if that quantity had been reduced. Food and necessaries in this case will have risen 100 per cent., if estimated by the *quantity* of labour necessary to their production, while they will scarcely have increased in value, if measured by the quantity of labour for which they will *exchange*. The same remark may be made respecting two or more countries. In America and Poland, on the land last taken into cultivation, a year's labour of any given number of men will produce much more corn than on land similarly circumstanced in England. Now, supposing all other necessaries to be equally cheap in those three countries, would it not be a great mistake to conclude that the quantity of corn awarded to the labourer would in each country be in proportion to the facility of production?" (Chap. 1, sec. 1). If these statements of Ricardo were true they would constitute a serious objection to the theory of value above set forth, but he has not attempted to prove them by evidence of any sort or kind. He says that it may require twice as much labour to produce a given quantity of food at one time as at another, and that yet the labourer will receive as much as before for the same quantity of labour. He cannot mean that a labourer can earn in six months what it takes him twelve to produce, for in such a case the labourers, if they consumed all that they earned, would consume more than they produced, which is manifestly impossible. It appears from this and other passages that the case which he imagined was one in which the whole loss should fall on the capitalists, the remuneration of abstinence, or the rate of profit

being diminished, while the remuneration of labour should remain the same, and the following illustration probably expresses his meaning. In the first instance, the labour of five men for a year is sufficient to produce 250 hectolitres of wheat, while their wages are equivalent to 100 hectolitres, or twenty apiece, and the capitalist receives 150, which is a profit of 150 per cent. In the second, it has become twice as difficult to produce wheat, and the five men produce only 125 hectolitres, but they still receive 100 for their wages, and the rate of profit has fallen to twenty-five per cent. In a later chapter I shall have to examine the arguments which have been adduced to show that the rate of profit varies at different times and places, and will only say here that it has never been proved, and that the case which Ricardo puts appears to me to be wholly imaginary. If, however, it could be proved that such a case had ever occurred, it would be necessary still further to qualify the law of value. Capital and labour must then be assumed to be two separate agents working independently of each other, and the value of a commodity may be said to be equal to the labour employed in producing it, the capital being altogether left out of the account. Thus in both the cases just cited 100 hectolitres are produced by the labour of five men, and will accordingly exchange for that amount of labour, but in the first case the capital employed produces 150 hectolitres, and only twenty-five in the second. This mode of speaking may be thought inconvenient, but I only suggest it in order to include cases the possibility of which I do not admit. When we find that the labour of one man produces more wheat in America than it does in England, we should expect to find that the wages of an American labourer, if all expended upon wheat, would purchase a larger quantity than the wages of an English labourer; and this, in spite of Ricardo, we do find. It is well known that money-wages are higher in America than in England, and that the price of wheat is lower in the former country. Mr. Somers mentions in his "Southern States since the War" (Macmillan, 1871), that the rate of wages paid to common negro labourers in the Southern States is a dollar a day, and on p. 140 he mentions that the ordinary price of wheat in Alabama is a dollar a bushel, at which rate a labourer would have to work two and three quarter days in order to procure a hectolitre. In England, the average rate of wages is 2f. 50c. a day, and 20f. the hectolitre is rather below the ordinary price, so that an English labourer is fortunate if he can obtain a hectolitre by eight days' labour. As for Poland, Ricardo has given us no figures to prove either that wheat is there grown with less labour than in England, or that the Polish labourer can obtain less wheat in exchange for his wages, and as I am not in possession of the necessary statistics, I cannot decide the question of

fact, but his vague statement is not a sufficient ground for abandoning a theory which is deduced from the principles of human nature. As value is determined by cost of production, so cost of production is measured by value, and when we find that the value of a certain commodity is greater at one time or place than at another, we may safely infer that its cost of production is greater.

The value of manufactured articles depends on the quantity of labour which is required in all the stages of production, in obtaining the raw material, in working it up, and in transporting the finished goods from the place where they are made to the place where they are wanted. This is most clearly shown in the case of goods made to order. When a contractor undertakes to supply 10,000 pairs of shoes, the price which he demands is that which he considers will leave him his usual profit after paying for all the labour expended in making the shoes, and, after purchasing the leather, the price of which depends in like manner on the amount of labour expended in dressing the hides and in tending the animals whose hides are made use of. If, after the conclusion of a contract, anything happens to make more labour necessary to prepare the leather or to make the shoes, the contractor suffers a loss, and will not undertake a fresh contract on similar terms, but will insist on receiving enough to remunerate his outlay, and thus the value of the shoes is raised to an equality with the labour expended in producing them. If, on the other hand, any improvement be introduced into a manufactory, which enables more goods to be produced with the same amount of labour, their value will for a time be in excess of their cost of production, but this is only for a time, and is only because the same improvement has not been introduced into all the manufactories of the same class, since value depends on the cost of production in the least favourable circumstances; and if the one manufactory where the improvement has been introduced is able to supply all the goods which the country requires, or if the improvement is generally adopted, the value must fall in proportion. When it was found that three bed-screws could be produced at Birmingham with as little labour as one had formerly been, the manufacturers were compelled to reduce their price; since, if they had not done so, other persons would have entered into the trade, and would have obtained all the custom by offering them to the public at a lower price. The point at which the price settles is obviously one-third of its former rate (the value of gold being supposed stationary), because when that point is attained, no one has anything to gain by abandoning his trade and engaging in the manufacture of screws, while, until it is reached, every person who wants screws has an inducement to do so; because he can thereby obtain them with less labour than by working at his own trade and exchanging

his products for them, and equilibrium is attained when the forces acting in all directions are equal. A sudden increase of the demand for any particular kind of manufactured goods has commonly for its first effect an increase of their cost, because it becomes necessary to employ fresh workmen whose labour is less efficient, and to resort to manufactories which are not so well situated, either as regards their capacity for production, or as regards their means of access to the market which is to be supplied; but a permanent increase of the demand tends rather to diminish the cost of production, and, consequently, the value. Production on a large scale makes it profitable to introduce expensive machinery, and to carry the division of labour to a much greater extent than could otherwise be done, and both these causes tend to diminish the cost of the articles. In goods in which the cost of obtaining the raw material constitutes a very small portion of the total cost, manufacturing improvements may effect, and are constantly effecting very considerable reductions of value; and even if the cost of the raw material is at the same time rising, it has no perceptible effect in counteracting the tendency to a fall of value. A piece of iron weighing half a kilogramme, and worth twenty centimes, may be worked up into 50,000 watch springs worth twenty centimes a piece, and it is evident that a rise in the price of iron to ten times its former rate will have no perceptible effect on the price of the springs, but the manufacturer may gain something when the price of iron is low, and lose something when it is high, while always selling the goods at the same price. It may, however, often happen that the increased cost of the raw material affects the price of the finished article without the customers becoming aware of the fact, for the quality of the article may be somewhat altered for the worse, without the change being detected. Every improvement in manufactures tends to produce other improvements, because every diminution of the cost of an article brings it within the reach of a larger circle of consumers, and thus causes a demand for a still larger quantity, which again renders possible a still further employment of machinery, and a greater division of labour, which still further reduces the cost and brings it within the reach of a larger circle of consumers, and the same cycle is again repeated. The application of steam to the manufacture of cloth has greatly increased the quantity of cloth consumed, and this increase has produced a corresponding increase in the number of machines annually produced for the use of the cotton mills, and this has led to numerous improvements in the machines themselves. The great extension of trade which these improvements produced rendered it necessary to improve the means of communication, and rendered it profitable to construct and work railways for that purpose; and these have still further reduced the cost of transport-

ing the material to the factories, and the finished goods to the consumers. As an improvement once introduced is never lost, and as it is almost certain to become the parent of other improvements, there results a constant tendency to a fall in the value of manufactured goods as a society advances in wealth and civilisation; and it may be seen by reference to former periods of our own history, or to less civilised countries at the present time, that at those times and places much more labour is necessary to produce articles which are here regarded as necessaries even by the poorest class, and which are here produced at an insignificant cost. This constitutes the main feature of the economic progress of society, and is the object to which the efforts of the industrial classes are constantly directed, and with constant success in spite of all the obstacles which the parsimony of nature, or the folly and rapacity of man are for ever interposing in their path.

The materials which are employed in manufactures of all sorts are obtained in the first instance from the earth; sometimes in the form of vegetables produced on the surface, sometimes in that of minerals deposited beneath it. The industries whose object is to obtain one or other kind of product have been called by French Economists "extractive industries," thus including agriculture, mines, and fisheries in one general class which has some characters in common, and some which distinguish it from the class of manufacturing industries which have just been considered. The important point in which they differ is that there is a more marked diversity in the productiveness of different mines and different farms in the same district than is found to prevail among manufactories of the same class. Here, therefore, it becomes more necessary to bear in mind that the value of commodities depends on the cost of producing them in the least favourable circumstances. Although most of the coal mines in the same district may be said generally to be equally rich, yet there are always some which are richer than the average, and some which are too poor to make it worth while to work them. If in those mines which are just rich enough to remunerate the labour and abstinence expended in working them the average yield of coal is 1,000 kilos a day for each man employed, the value of 1,000 kilos will be equal to a day's labour. If there should be a great diminution in the consumption of coal, some of the inferior mines will be abandoned, and the value of coal will fall, because it can be obtained from the superior mines with less labour. If, on the other hand, there should be a great increase in the consumption of coal, it becomes necessary to resort to some inferior mines, which yield perhaps only 500 kilos to a day's labour, and the value of coal is consequently doubled. In the commencement of 1872 there was a great increase in the demand for iron ore, and

this induced English merchants to send large orders to Bilbao in Spain, but these orders were much larger than could be properly executed, and it was necessary for the ships to wait much longer than usual before obtaining their cargoes, which increased the expenditure of the merchants and the value of the ore. As the most fertile mines are the first worked, and as the expense of working the same mine increases in proportion as the excavations are sunk deeper into the ground, there is a constant tendency to an increase in the value of minerals, being exactly the reverse of the tendency observed in manufacturing industry. In Australia, immediately after the gold discoveries, it was found that an ordinary digger might expect to obtain 8 grammes of gold by a day's labour, and the value of gold fell to such a point that 8 grammes would exchange for a day's labour, but five years afterwards, the surface diggings having been for the most part exhausted, the average yield of the mines was only 2 grammes for each day's labour, and the value of gold fell in proportion. But this general tendency to a rise is counteracted and sometimes overborne by mechanical improvements, which enable the miners to bring the minerals to the surface with much less labour than was formerly necessary, including, of course, the labour of those employed in making the machines and bringing them to the mines. The same effect is produced by mechanical or chemical discoveries, which facilitate the extraction of certain metals from the ore in which they are found; and, besides these general causes, there are also occasional discoveries of mines more abundant than any previously worked. It is well known that some very abundant gold mines were discovered in California in 1848, but it is not so well known that some very abundant quicksilver mines were discovered in the same country in 1850, and that this greatly reduced the cost of extracting silver from the ore in the workshops of Mexico. The great fall in the value of silver in the 16th century was owing not only to the discovery of the mines of Potosi and other places, but also to that of a method of employing quicksilver in extracting it from the ore.

The rise in the value of minerals, or indeed of any article, is always limited by one circumstance, its utility to the consumers, since no one will give more labour in exchange for any article than he considers will be compensated by the enjoyment which the possession of the article will afford him. If it is so difficult to procure iron or copper that the labour required seems to the people to be too heavy a price to pay for the pleasure of possessing them, they are said to be not worth the trouble of producing, and the mines are not worked at all. If there are two commodities of such a nature that one of them can be substituted for the other, a rise in the value of one induces many people to abandon its use,

and to use the other for the same purpose. Thus, if coal should experience a great rise of value, its consumption will be greatly diminished, and wood would be used for fuel, and the effect of this would be to check the rise in the value of coal, since the smaller quantity required might be obtained from the superior mines, and to raise the value of wood, since the greater quantity required could only be obtained by resorting to inferior or more remote forests. Gold and silver stand in this relation to each other, and a fall in the value of one always tends to produce a rise in the value of the other.

In some mines, more particularly those of gold and copper, the amount of the product which a given amount of labour will yield is extremely uncertain, but this uncertainty is the prevailing characteristic of agricultural industry, since the amount of the crop varies with the state of the weather, which can never be known beforehand. It may be thought, therefore, and it has been contended that the law that value depends on cost of production does not apply to the case of agricultural produce. But a little consideration will show that farming cannot be permanently carried on unless the value of the produce is sufficient to remunerate all the labour and abstinence which are exerted by farmers. If this were not the case, no one would engage in farming except to produce food for himself, and no one would supply the wants of others unless they gave him in exchange as much as he could produce for himself if he worked at their trades. If, as a general rule, ten days' labour is required to produce a hectolitre of wheat on the worst land which is permanently cultivated, the value of a hectolitre must be generally equal to ten days' labour. The labour, of course, includes that which is expended in making the ploughs and other implements employed, and the abstinence of the farmers must also be remunerated. Most Economists accordingly consider that the value of corn conforms to its average cost of production when a long series of years are taken into account, but they do not think that its actual value depends on the cost of producing it in each particular year. If an unfavourable season makes the crop of one year less by one-sixth than that of the preceding year its value has been known to be doubled, and this is considered a proof that its value is not determined by its cost of production. If it were, they seem to consider that its value would only rise to the extent of one-sixth, but if this happened it would be very difficult to reconcile it with the theory. It is not the average, but the worst land which determines the cost, and it by no means follows that because the whole area produces one-sixth less than it did before, therefore every farm yields five-sixths of its usual quantity. Suppose the whole crop in the country to be 600,000 hectolitres of wheat, and that 100,000 of these are grown on land which yields

one hectolitre to 12 days' labour, and that this land being the worst cultivated, or, as Dr. Chalmers calls it, the "margin of cultivation," the value of a hectolitre is consequently equal to 12 days' labour. If an unfavourable season reduces the crop to 500,000 hectolitres, does it by any means follow that the wheat grown on the worst land will be produced at the cost of 14 days' labour to each hectolitre? It is well known that the weather is not the same in all parts of the country, and if the average deficiency is one-sixth it is certain to be much greater in some parts, and probably in some of the worst lands it may amount to one-half. Thus 40,000 hectolitres may be produced at a cost of 24 days' labour apiece, and the farmers who have produced them are as anxious as any others to obtain full compensation for the labour which they have expended, and they will, if possible, hold back their corn until its value rises to 24 days' labour per hectolitre. The great deficiency which generally prevails may enable them to do this, since wheat is a necessary of life, and people will give 24 days' labour for a hectolitre rather than go without it. Mr. Macleod* contends that the value of corn does not depend on the cost of production, because every farmer tries to get as much as he can for it, but this proves nothing, since it only shows that every farmer tries to get as much as will repay him for his outlay; and, as there cannot be two prices in one market, all farmers obtain as much as will compensate that one of their number who has been least fortunate. Some farmers do not obtain enough to reimburse their expenses, and they consequently fail, but this is because a demand for food can be satisfied without resorting to their lands. Wheat is used for other purposes besides that of making bread, and those who wish to use it in distilling or other ways will not give so much labour in exchange for it as those who desire to have it in the shape of bread. The value is determined by the cost of producing it on the worst farms, which must be tilled in order to produce the quantity of food which the people are determined to have, and the value each year is the same as it would be if that particular kind of weather prevailed every year. If the harvest has been bad, a small quantity of corn is brought to market, and those farmers who have obtained very small crops are able to obtain a high price, which is sufficient to compensate many of them for all that they have expended in producing it. The greater the scarcity, the greater the chance that every farmer will receive the full remuneration for his outlay, since the demand for food being almost a fixed quantity, the smaller the amount of the crop, the more necessary it becomes to obtain the produce of every farm, and, therefore, to pay the farmer whatever he thinks

* Theory and Practice of Banking, p. 105.

sufficient. The opinion commonly prevails among farmers as well as other classes that they benefit by seasons of scarcity, and lose by seasons of plenty, and this opinion has some foundation in fact, but farmers as well as other people suffer as consumers by the dearness of corn. When corn is dear farmers are more likely to dispose of their whole stock on advantageous terms, and when it is cheap they are more likely to sell some of it at a loss, for, when the demand for food is satisfied, those who want wheat for other purposes will not give so much labour in exchange for it. When a country has little or no intercourse with other countries, the variations of the seasons may produce variations in the price of corn which appear almost incredible to persons living in England at the present day. Thus the price of wheat was nine times as high in England in 1317 as it was in 1324, and it was ten times as high at one period of the year 1289 as at another period of the same year.*

In our time a considerable rise of price causes large quantities to be sent here from abroad, and it is not necessary to resort to the least successful farmers to obtain the quantity which we require, and it is scarcely possible that there should be a bad harvest in every part of the world at the same time. When, on the other hand, the English harvest is good, corn is exported, or less is imported, and the fall of value is in like manner checked. I have spoken as if wheat were the sole product, but farmers produce many things, and a loss on one may be compensated by a gain on another, and they are satisfied if the value of all that they produce is equal to the whole of the labour which they have expended upon it. If, however, they find that they lose by one kind of crop, they diminish their production of it and grow more of something else, as is frequently done with wheat and barley, and Mr. Somers mentions that many of the Southern planters are substituting wheat for cotton as their principal crop, because they find the latter to be unprofitable. As an increased quantity of agricultural produce can only be raised at an increased cost, it follows that, as population increases, there is a constant tendency to a rise in the value of all things of this class. In such countries as South America, where there is an abundance of rich pastures, and where the cost of obtaining cattle is little more than the labour of catching them, their value is extremely small; but when it becomes necessary to keep them in inferior pastures, to store up food for them in the winter, and to provide shelter for them, the cost of their maintenance, and their value, is much increased.

Agricultural improvements are perpetually tending to reduce the cost of production, but the tendency to a rise exists. In the time of Henry

* See the Tables in Sir F. M. Eden's "State of the Poor."

the Eighth, a labourer could obtain three-and-a-half kilos of beef with a day's labour, but he cannot now obtain as much as two kilos in the same time. The great increase of the population of Victoria consequent on the gold discoveries raised the value of meat fifty per cent., the price being tripled, while the rate of wages was merely doubled at the close of 1856. During the twenty years, 1852-72, the price of beef in London rose forty-six per cent., and that of mutton forty-eight per cent., as was remarked by the Registrar General in his report for the first quarter of the latter year, but wages did not rise in proportion. Most Economists consider that there is a tendency to a rise in the cost of all agricultural produce, and that the increase of population augments the cost of producing the staple food of the people. But there is this important difference between the staple article of food and other articles, that while population may increase before the quantity of the latter has been increased, it cannot do so before the quantity of the former has been increased. If three hectolitres of wheat are required for the food of each person, a country which possesses three million hectolitres may support a million inhabitants, and the average cost of each hectolitre may be equal to ten days' labour. If the population could be suddenly increased by one hundred thousand, it would no doubt be necessary to resort to poorer soils, and the value of food would be increased, and this may happen when a district is suddenly invaded by a large army, but in the ordinary course of things population cannot increase until more food has been provided, and it is the increased quantity of food which enables people to maintain a larger number of children. If people could live for a year without food they might wait until the extra quantity had been provided, but if they could live for one year they might live all their lives without it, and an increase of their numbers would not of necessity increase the consumption of food. Many children are no doubt brought into the world before the quantity of food has been proportionately increased, but this causes their untimely deaths, and not an increase of the quantity or the cost of food. In almost every country the wages of common labourers are barely sufficient to maintain themselves and their families, and if they bring into the world more children than they can properly support, they may indeed desire more food, but their desire will not cause it to be produced. Their wages being barely sufficient at previous rates, any increase in the cost of food must prevent them from obtaining the necessary quantity, and some persons therefore obtain less than is required to support life. Some, therefore, die of starvation, or of some of the many diseases which want is sure to engender, and the population is prevented from increasing beyond the means of subsistence. It was to prevent the frightful suffering which these words imply that

Malthus recommended all persons to exercise "moral restraint," *i.e.*, not to bring any children into the world whom they were not able to maintain; and yet, with singular inconsistency, he himself argued as if population could increase before the means of subsistence, although the fact that it could not was the sole reason for his recommending the exercise of self restraint in this matter.

Mr. Rogers* denies that the cost of producing food has any tendency to increase with the growth of society, and maintains that the cost of producing wheat in England is not greater now than it was in the 14th century, although the population of the country has increased tenfold; and although the total agricultural product has increased sevenfold, and a great deal of land has been taken into cultivation which was formerly thought too poor for that purpose. The tables which he has elsewhere published,† though extremely copious, do not throw so much light on this question as could be desired, for while they furnish most ample information respecting the prices of wheat and other kinds of grain, they do not give the wages of common labourers with sufficient distinctness. The wages of mowers and threshers are given not by the day, but by the piece, so that they cannot be compared with the rates prevailing at the present time. If the thatchers may be considered as corresponding to the common farm labourers, it appears that the wages of this class during the eight years 1307–14, were, on the average, an amount of silver equivalent to 88c. a day, while the average price of wheat during the same period was 8f. 8c. the hectolitre; so that a hectolitre would exchange for, and must therefore have been produced by rather more than nine days' labour. The average price of the same quantity of wheat during the nine years 1863-71, was 21f. 80c.; and the average rate of wages of farm labourers was 2f. 50c., so that the cost of a hectolitre was rather less than nine days' labour. The thatchers' wages can hardly have been less than those of common labourers; but if they were higher, the comparison would of course be still more favourable to the present time, but, at all events, the cost of producing wheat is not greater now than it was at one period, at least, in the 14th century. The question, however, is not one of statistics, but of theory; since, if it could be proved that no rise in the cost of producing food had actually taken place, this would only show that the tendency to a rise had been counteracted by agricultural improvements or other causes, and not that no such tendency existed. If, on the other hand, it were shown that at some former period the cost of raising wheat was much less than at present,

* See his Manual of Political Economy, "Clarendon Press," 1868.

† A History of Agriculture and Prices in England, by James E. Thorold Rogers, M.A., "Clarendon Press," 1866.

this would prove nothing unless it could be also proved that the seasons were not more favourable at that time than at present. The question is whether an increase of population can take place before an increase of food, and this question must surely be answered in the negative by every one who understands by "increase of population" an actual augmentation of the number of the inhabitants of a country, and not a mere increase of births. If the number of births is exactly equal to that of the deaths in each year, there is no increase of population; and though the people may determine what shall be the number of births which take place in a year, they cannot determine that the population shall increase unless they have previously increased the quantity of food. As a cause must precede its effect, increase of population cannot be the cause of an increase of food, nor of its increased dearness, which is consequent on the resorting to poorer soils in order to raise a larger quantity. If, then, the cost of food has any tendency to increase as society advances, it must be because farmers are prompted by some motive or other to resort to poorer soils, while richer ones are to be had. But such a supposition is contrary to the principle that every one desires to obtain wealth by the least possible labour, and is therefore inadmissible. Poor land is taken into cultivation, not because the population has increased, but because some discovery has been made which renders it possible to obtain as much profit as from the worst previously cultivated, and this discovery enables the quantity of food to be increased, and an increase of population is the effect and not the cause. It appears, then, that while manufactured commodities tend to fall in value as society advances, and raw produce in general tends to rise, the value of the staple food of the people, though it varies from year to year, tends always to remain stationary when the seasons are equally favourable. As the value of a commodity affords a sure index of its cost of production, a good table of statistics would enable us to infer a good deal respecting the economic condition of a country if history had not furnished us with any information on the point. The excellent table of ways and prices, in Victoria, during the years 1851-56, given by Mr. Newmarch in an appendix to Tooke's "History of Prices", shows that wages were doubled during that period, and so great a rise in so short a time would tell us that some great discovery of gold must have taken place, if we had no historical evidence of the fact. From the same table it appears that the value of meat rose 50 per cent., and this would show a great increase of population. Other articles, such as cloth, tobacco, spirits, &c., retain their former prices, and thus fell to half their former value, and as a simultaneous improvement in the production of all of these to the same extent is extremely improbable, we might infer that these were brought from some foreign

country where the value of gold had not fallen to an equal extent. Thus the table would inform us that some abundant gold mines had been discovered in or near Victoria about the year 1851, that the discovery had attracted a large number of emigrants, and that the people had exported their gold, and imported manufactured articles, all which we know to have actually taken place during that period.

As the value of a commodity always in the long run conforms to its cost of production, all attempts of a government to regulate the value or price of any article must be either superfluous or injurious. If the law fixes a price which is equal to the cost of production, it simply does what competition would have done without it, and if the price is less than this, the law will be evaded, or the article will not be produced. A government cannot compel people to exert nine days' labour in producing an article for which they are only to receive eight days' wages, and the consumers will find that they must either give nine days' wages or go without the article. When the Parliament of Edward the Second endeavoured to fix the prices of eggs, poultry, and other things, they could, by ordering that those who possessed those articles and refused to sell them at the legal rate should forfeit them to the King, compel some persons to sell them at a loss; but they could not compel farmers to continue to produce them and bring them to market. The farmers would not do so unless they had good reason to believe that they would get a sufficient price for them, and they would trust to the honour of their customers not to inform against them, while they might perhaps charge a still higher price to compensate the risk of legal punishment. Until recently, an Act of Parliament regulated the fares which might be charged by cabs plying in the streets of London, but it is obvious that no one would have employed his capital in making cabs, and sending them to ply for hire, unless those who made use of them paid enough to compensate him for his outlay, and to give him the ordinary rate of profit; and if the legal rate was not sufficient to allow this, it must have been made up either by violation of the law, or by supplying inferior cabs and horses, and thus bringing the cost of the article into conformity with the price. It is well known that both these methods were resorted to, that cabmen constantly received more than their legal fare, and that the horses employed were frequently of the worst description. If the maximum rate of railway fares be fixed too low, the companies must, no doubt, protect themselves by reducing their expenditure in some direction or other, and thus diminish the comfort of the travelling public.

It has been pointed out above that the cost of production will account for many cases of value which seem at first sight to require some other explanation, and, when properly understood, it will explain even such

anomalous cases as those which were observed during the siege of Paris. Butter, which in the first week of the siege was sold at 8f. the kilo, rose in the fifteenth week to more than 80f. for the same quantity,* and this will not seem extraordinary when we remember that the pastures which could have been found within the walls must have been far inferior to those commonly used in Normandy and elsewhere, and that the cows must therefore have produced less milk, although they still required as much labour in tending them. The cost of distribution was also greater, since the tradesmen had a smaller quantity to sell, while they still had to employ their whole time in their business, and still required the same rate of profit on the money which they employed, though this represented a smaller quantity of butter. As their wages and profit had to be provided by the sale of a smaller quantity, it is obvious that the price of each kilo must have experienced a greater rise in passing through their hands than when they had a larger quantity to dispose of. This was called "exorbitant profit," but it was necessary if the tradesmen were to continue to live by their trade, and if they had not been allowed to obtain it, they must, like the poorer classes, have been maintained at the expense of the Government. The rise in the price of eggs from 15c. to 3f. 50c. a-piece may be accounted for in the same way, as the cost of maintaining poultry must have increased also. There are, however, many cases in which the value of an article does not conform to its cost of production, which only determines what the value shall be when the goods are made to order, or when they are regularly produced during a long period. It has too often happened that an economic law has been proclaimed as a practical truth without proper regard to the qualifying circumstances which obscure and impede its operation, and the law that the value of an article depends on the quantity of labour which is necessary to produce it has been supposed by some socialists to be applicable to all cases of exchange. It appears to them to be a just rule that two articles, each of which requires ten days' labour to produce, should exchange for each other, and they have tried to devise an artificial mechanism by which this result should be always brought about. An attempt of this kind was made many years ago by Robert Owen, who established a sort of market in a building in the New-road, London, to which his followers brought various articles which they had made, and received in exchange labour-notes, or certificates that the articles in question had, or ought to have, required the labour of so many hours or days to produce. Each of these notes could be exchanged by the holder

* See the tables at the end of "Shut up in Paris," by Nathan Sheppard. Bentley, 1871.

for any other article which had required the same time to produce as that specified in the note, and it was hoped in this way to secure to the labourer a just reward, and to protect him from the suffering produced by the fluctuations of the market. The consequence might have been foreseen—the labourers, instead of producing what other people wanted, produced what they liked best—a blacksmith brought a number of screws which nobody wanted, and articles of food and other necessaries were not to be got, and the establishment was soon broken up. Labour-notes have, however, been tried again in a settlement founded by one of Owen's followers, at a place to which he has given the singular name of "Modern Times," in Long Island, New York, which was described by Mr. Moncure D. Conway in the second number of the "Fortnightly Review," but he does not state to what extent it has been found possible or convenient to employ them. When a person has produced articles which do not happen to be required by other people, it is often his interest to part with them at a lower price, and thus induce others to purchase them who would not have done so if their value had been equal to their cost of production, and this fall warns those who are engaged in the trade to stop or slacken the production of those articles. If the blacksmith to whom I have just referred had found himself obliged to reduce the value of his screws, this would have warned him to bring no more of them, but to bring more of something else, and the market would not have been glutted with them. When, on the other hand, there is a sudden increase in the demand for a particular article, its value may rise even before its cost of production has actually increased, and this encourages people to produce more of those articles, and to resort to less favourable situations in order to do so. And thus, by the free action of these alternations, producers are warned and encouraged to accommodate their labours to the wants of the consumers. The question now arises, how these changes are to be accounted for, and what is the law to which the actual market value of an article conforms? and to this question I am unable to give any answer. About noon on the 25th of April, 1865, the news of President Lincoln's assassination reached London, and its immediate effect was a remarkable increase in the sale of the daily newspapers during the course of that afternoon, and many copies were sold for much more than their usual price. While the "Times" is usually sold for 30c., the special edition published on that afternoon was sold, in some cases, for as much as 3f., or ten times its usual price, and I am unable to refer to any law which would explain why that price should have been fixed on more than any other. Its ordinary price is determined by the amount of labour necessary to produce it, but we cannot suppose that ten times as much labour was required for printing that particular

edition, and as I know of no other cause which will account for this or other similar cases, I must leave them unexplained. As, however, other Economists have suggested various modes of explaining them, I must examine their theories, and state the reasons which prevent me from accepting any of them. They may be classified as the theories of supply and demand, of utility, and of competition, which I will now proceed to examine separately.

If a tradesman were asked why the price of the "Times" rose in the case just referred to, he would immediately reply that it was because the demand was in excess of the supply, or, in other words, the "Times" was not sold at its usual price because the number of persons who desired to purchase it was greater than the number of copies which were offered for sale. This, though it might explain why the price rose, does not tell us why it rose to that particular height, and if the tradesman was asked to explain this, he would reply that it was because when that rate was attained the demand and the supply were equal. But when we come to inquire what is meant by saying that the demand and the supply are equal, it appears that, however carefully disguised, the proposition is nothing more than a statement that the buyers and sellers are agreed, a fact which is implied in the statement that a bargain has been concluded.

Adam Smith pointed out that demand must mean something more than a mere desire, if it is to exercise any influence on value, since the desire of a beggar to possess a diamond can have no effect on its price, and he therefore proposed to restrict the use of the term "demand" to the effectual demand, *i.e.*, the demand on the part of those who are able to pay the natural price, and he defined the supply as the quantity of goods brought to market. The market value or price was, he thought, determined by the proportion between the effectual demand and the supply, and if the former increased while the latter remained stationary, or if the latter fell off while the former remained stationary, the price would rise, and vice-versâ. When the supply is diminished, "the market price will rise more or less above the natural price, according as either the greatness of the deficiency, or the wealth and wanton luxury of the competitors, happen to animate more or less the eagerness of the competition." In the case that I have cited therefore, Adam Smith would say that the price of the "Times" rose because copies of it were scarce, and that the price of it was determined only by the wealth of the purchaser. It will be seen that this is not even an attempt at an explanation, since it merely tells us that the price is such as the purchasers are able and willing to pay if they cannot obtain the article without paying it. The fact that the "Times" was sold at that price implies that the purchasers were able and willing to pay it, and the thing to be explained is, that

that particular price was fixed on rather than any other, and this Adam Smith does not attempt to explain. A Swiss Economist, the late M. Cherbuliez,* considers that the market price is determined by the proportion between the intensity of the demand and the supply, and he would say that the intensity of the demand for the "Times" was equal to 3f. for each copy, and that the supply was so small as to raise the demand to that point. Here again we have nothing more than a description of the fact, since to say that a person gave 3f. for a copy of the "Times," is the same thing as to say that the intensity of his demand for it was such as to induce him to pay that price, and to say that the intensity of the demand was raised to that point by the scarcity of the journal is merely to say that he gave that price because he could not get it for less. We wish to know why a newspaper, which at all other times exchanges for one eighth of a day's labour, exchanged on that particular afternoon for one fourth more than a whole day's labour? and we learn nothing from the information that the purchasers thought it worth so much labour, or that the sellers would not part with it for less, for these are merely re-statements of the fact that the exchange took place on those terms. Mill takes exception to the language of Adam Smith, and contends that there can be no proportion between two things so different in kind as a human desire and a quantity of goods, and defines the demand as the quantity of goods demanded, and the supply as the quantity offered for sale. He considers that the market price effects the equation of the demand and the supply, *i.e.*, that it is the rate at which the quantity demanded is exactly equal to the quantity offered, and that the price fluctuates until this point is reached. It is against the theory of supply and demand as stated by Mill that Mr. Thornton has directed his attack, and he denies that the market price of an article is always such that the supply and demand are equal. Applying Mill's theory to the case now under discussion, we should be told that if the copies of the "Times" had been sold at 1f. a-piece, more copies would have been demanded at that price than were to be had, as for instance, 2,000 might have been asked for while only 1,000 had been printed, and that the demand being thus in excess of the supply, the price rose higher. When it rose to 2f., 1,500 copies were demanded, and it was not till it rose to 3f. that the demand fell to 1,000, which, being exactly equal to the supply, the sale took place on those terms. Mr. Thornton's objection is, when applied to this case, that we have no evidence that the demand in the last instance is just equal to the supply, and that it may very well be supposed that there were 1,200 people who were willing to give 3f. for the copy, and yet that none of them were

* Précis de la Science Economique par A. E. Cherbuliez, Paris, 1862.

willing to give more, in which case the price would rise no higher. In the case which he supposes, in which there are three competitors for the same horse, none of whom will give more than, and all of whom will give a certain sum, as 1,000f., for example, the horse will be sold for that price although the demand is three times as great as the supply. On the other hand Mr. Thornton points out that the supply may be often in excess of the demand, as in the case of a shop which is selling off, where the goods are first offered at one price which is found to be too high for the whole quantity to be sold in the required time, and the price is gradually lowered until the whole quantity is disposed of. Yet, in each instance the supply is the whole quantity of goods in the shop, while it is only when the price has fallen to its lowest point that the demand is equal to the supply, and yet some of the goods are sold at the higher prices. It appears then that Mill's theory is not a correct description of the facts, and even if it were, it would only tell us that the price was such as perfectly satisfied both the buyers and the sellers, and that a high price was paid because the buyers could not obtain the article without paying it, and the sellers refused to part with it for less.

Cairnes in his latest work has offered a new definition of Supply and Demand, which is free from the objection urged against that which was given by Adam Smith. "I would define," he says, "the terms as follows:— Demand, as the desire for commodities or services seeking its end by an offer of general purchasing power; and Supply, as the desire for general purchasing power, seeking its end by an offer of specific commodities or services." * When used in this sense, the terms Supply and Demand are strictly analogous, and we may logically speak of a proportion between them, but the new definition does not enable us to explain the market value of a commodity. The price of an article is the proportion between its quantity, and the quantity of money which is given for it; but we do not explain its price by saying that it is determined by the proportion between the two quantities. Cairnes, indeed, did not consider that his definition would enable us to afford a complete explanation of the phenomena of market value. After explaining the causes on which natural value depends, and pointing out that the tendency of the fluctuations of the market is to keep as near as possible to the natural price, he says "The foregoing is the nearest approximation I can make to a statement of the law of market price. I can well believe how utterly unsatisfactory it will appear to some Economists, whose views in connection with their science are much more ambitious than my own." † He then proceeds to argue that it matters very little whether a complete theory of

* "Some Leading Principles of Political Economy." Book I. Chap. II. Sec. 2.
† Book I. Chap. IV. Sec. IV.

the subject is, or is not discovered, and concludes by saying, "So far as the doctrine of market price is concerned, it seems to me to suffice for the purposes of Social Philosophy, if we are enabled to set forth in a general way the connections between the fluctuations of the market and the more fundamental conditions on which production and exchange depend. And so much, I venture to think, the theory, as I have stated it, taken in connection with the known facts of particular cases, will sufficiently enable us to perform." Whatever definition therefore may be given to the words Supply and Demand, the theory amounts to no more than the truism that a commodity is sold at the rate which is agreed upon between those who possess, and those who wish to acquire it; and the theory is of no use in Political Economy which seeks to explain why a particular price is agreed on. But I would not be understood to say that because the phrase is of no use to the economist, it is therefore of no use to the merchant, for the latter desires not to know the reason why the value of a commodity is what it is, but to find some sign which will tell him when the price of an article will rise or fall, and what it will be. The merchant knows by experience that the price of corn rises after a bad harvest, and he says that it does so because the supply is diminished. The cause, as I have endeavoured to show, is that the corn is raised with more labour, and the diminution of the supply is the sign which indicates to the economist that more labour is required, and to the merchant that its value will rise. The merchant knows that if he gives a much larger order than usual for coals, he will have to pay a higher price; and he says that it is not because the demand has increased, but it is because more labour is necessary to extract the coals from the mine. He knows that if he tries to sell a large quantity of goods which other people have not ordered, he must submit to a fall of price; he says that it is because the supply is excessive, and he accordingly reduces the supply by sending less to market, and thus he is warned to adapt his conduct to the wants of his customers, though an excessive supply means nothing more than a supply which is too large to be disposed of without a fall in the price. Merchants always desire to know the amount of different commodities which are held in stock, because the amount of the stock already possessed determines the quantity which must be produced, and this determines the cost of production. Variations in the supply are the symptoms, but variations in the amount of labour necessary for production are the causes, of exchanges of value. When a man of business says that the prices of commodities ought to be regulated by Supply and Demand, it is merely his way of saying that they ought to be settled by the mutual agreement of buyers and sellers, without any interference on the part of Government.

A theory has been propounded by Mr. Jevons, and has received the support of several Economists, both in this country and on the continent, the object of which is to explain all variations of value by referring them to variations in the utility of the article. Mr. Jevons argues that as utility is not an intrinsic quality in the articles themselves, but expresses a relation between them and the particular human beings who may at any one time wish to consume them, the same article may and does possess very different degrees of utility according to circumstances; one of these circumstances being the abundance or scarcity of the article itself. Taking food as an example, he says, "Let us imagine the whole quantity of food which a person consumes, on an average, during 24 hours to be divided into ten equal parts. If his food be reduced by the last part he will suffer but little; if a second tenth-part be deficient, he will feel the want distinctly; the subtraction of the third tenth-part will be decidedly injurious; with every subsequent subtraction of a tenth-part his sufferings will be more and more serious, until at length he will be upon the verge of starvation. Now, if we call each of the tenth-parts an increment, the meaning of these facts is that each increment of food is less necessary, or possesses less utility than the previous ones."* He then proceeds to illustrate his argument by a diagram in which the diminishing value of each successive increment is represented by diminishing areas. I have no wish to deny that this is a convenient illustration, or that the symbols of geometry and algebra may in some cases be used with advantage in explaining economic theories, though in my own case, and I suspect in those of the majority of readers, their employment renders it more, and not less difficult to follow the author's reasoning. But I cannot find that this theory explains anything which has not been already explained by Ricardo. The mere use of mathematical symbols is not in itself sufficient to introduce certainty or precision into a science. They can only be used with advantage when the scientific laws to which they are to be applied have been already established, and this condition is wanting in the case of market value. Mr. Jevons accepts Ricardo's theory of natural value, so that he introduces nothing new into this part of the subject, but he puts forward his theory as embracing all cases. His theory, as stated by himself, is, that "the ratio of exchange of any two commodities will be inversely as the final degrees of utility of the quantities of commodity available for consumption after the exchange is effected."† This amounts to saying that two commodities exchange for each other in proportion to their utility, but as there is no way of measuring the utility of commodities except by their purchasing power,

* Theory of Political Economy, chap. 3, sec. 4. † Chap. 4, p. 95.

the theory does not point out anything upon which their exchange value depends, it simply tells us that two things of equal utility will exchange for each other, and the fact that they do so exchange is the sole proof of their possessing equal utility. "The price of mutton," says Mr. Jevons, "on an average, exceeds that of beef in the ratio of 9 to 8; we must conclude that people generally esteem mutton more than beef in this proportion, otherwise they would not buy the dearer meat. It follows that the final degrees of utility of these meats are in this ratio, or that if PX be the degree of utility of mutton, and XY that of beef, we have—PX = $^9/_8$ XY."

But it may be safely said that no one who eats beef and mutton has ever before observed that the pleasures afforded by the two sorts of meat stood in this proportion to each other, and the retail price is generally the same for both. The cause must be the fact that sheep, in proportion to their weight, require more labour to rear them than oxen do, and even if it is true that people prefer mutton to beef, this would have no effect on the proportion between their respective values, unless it induced people to employ more labour in rearing sheep, and it would still be true that value depends on the cost of production. Mr. Jevons gives a similar explanation of the fact that the value of gold is rather more than fifteen times as great as that of silver, because it is fifteen times as useful. But he gives no proof that the utility of gold bears that proportion to the utility of silver except that it exchanges for it at that rate. The proportion in ancient times was 10 to 1, which was altered after the discovery of America to 15 to 1, and can we suppose that the people of Europe in the course of the 16th century discovered some new utility in gold which induced them to prize it more highly? Even if they had done so, it would have had no effect on the value of gold unless it had induced people to work less abundant gold mines than they would have otherwise done, and Mr. Jevons would still have to admit that the real cause of the change in the proportion between the values of gold and silver was, as has always been maintained, that the cost of producing silver underwent a greater reduction than that of producing gold. He contends that his theory is proved by the very slight effect which the gold discoveries in California and Australia have had upon the gold price of silver, which has not been permanently altered more than two or three per cent., but he takes no account of the causes which have been in operation since 1850, which have tended to reduce the cost of producing silver. As I have mentioned above, some abundant quicksilver mines were discovered in California in 1850 and 1852, and, as this metal is of great use in extracting silver from the ore, the fall in its value, consequent on the discovery of the mines, tended to reduce the value of silver also. A

correspondent, writing to the "Times," on June 19th, 1872, under the signature of "F. G. S.," mentions on the authority of the manager of a large smelting and refining establishment, that the ores of gold and silver, as well as other metals brought to this country during the previous ten years showed a marked and uniform increase in the amount of their yield over those of the preceding decade. Thus gold and silver have fallen in value because both of them now require less labour to produce, and, as the improvement has not been uniform in both cases, a slight change has taken place in their relation to each other.

The fact that both have fallen in value when both require less labour to produce is no proof that their value does not depend on the labour required to produce them. In Japan,* before the Americans obtained leave to trade there, the value of gold stood to that of silver in the proportion of four to one, and what reason can be supposed to have induced the Japanese to form so low an estimate of the utility of gold in comparison with that formed in the rest of the world? Reference to the cost of production suggests a simple explanation, viz., that in the mines that were worked in Japan it only required four times as much labour to procure a given weight of gold as to procure the same weight of silver. That the Japanese were not disposed to abandon the use of gold if its value rose higher, is shown by the fact that they continue to use a gold currency, although gold is now sixteen times as valuable as silver. While the old proportion existed, there was a great inducement to American merchants to import silver into Japan, and to export gold from thence; and they did so to such an extent that the Japanese Government, in order to prevent all the gold coins from being exported, was obliged to call them in, and to issue new ones of the same value, but of one-fourth the size, thus making gold sixteen times as valuable as silver. As far as the precious metals are concerned, Japan now enjoys Free Trade with the rest of the world, and, as the cost of obtaining gold is generally more than fifteen times as great as that of silver, the two metals exchange for each other at or about that rate in Japan as in other countries. It may, perhaps, be objected that I infer the cost of production from the value, when the value is the thing which I have to explain, and that I have no proof that gold required in Japan four times as much labour to produce as silver did, except that it was four times as valuable, but this is only because I consider that the theory has already been established on other evidence. It was known that gold could be produced in Victoria in 1851 with less labour than formerly, and the fall in its value took place afterwards, and was established by other evidence.

* See Seyd's Bullion and Foreign Exchanges, p. 372.

The fact of a favourable harvest is known to all who are interested in the subject before the value of corn falls; and it is a fact which can be easily ascertained that the same quantity of labour produces more wheat in America than in England; a fact which rests on the testimony of agriculturists who are capable of judging the question, and which would be equally true if wheat were never exchanged for other things at all, but was always consumed by those who produced it. Mr. Jevons' theory, on the other hand, seeks to explain the fact of an exchange by something which is inferred from the exchange itself; and, although he seems to attach more importance to it than to the many valuable suggestions which his work contains, I am compelled to reject it as telling us no more than that people give for commodities as much as they think they are worth.

In his paper on the "Mathematical Theory of Political Economy," read before the Statistical Society of Manchester, November 11th, 1874, Mr. Jevons, after referring to the support which his theory has received from Dutch and other foreign Economists, and answering Cairnes' objections to it, frankly admits that it has not made any material addition to economic science. "I will only further add," he says, "a few words as to the value of the theory itself. It might seem that it leads us to no new conclusions, because we found that the principal inferences from the theory were the laws of Supply and Demand, and the doctrine of the relation of value to cost of production already so well known in Political Economy. But though many facts of economical doctrine, as now accepted, will be confirmed by the theory, other parts will probably be shown to be groundless. The results of any such theory must be of a triple character—destructive—conservative—and constructive; but it is, as yet, too soon to attempt to trace out the actual character and extent of its effects in each direction." I can only say that neither his arguments nor those of M. Walras,* who has independently arrived at a precisely similar theory, are strong enough to lead me to expect that it will throw any material light on the extremely complex phenomena of market value.

The only theory which now remains to be examined is that which maintains that the value of commodities is determined by competition. It is quite true that the price of an article is settled by the competition of buyers and sellers, but competition does not explain what price will be agreed upon, or why any particular price should be chosen. Mr. Thornton considers that prices are regulated by competition; that there is no law regulating competition; and, consequently, none

* Elements D'Economie Politique Pure, Lausanne, 1874.

regulating price; and he seems not to consider that competition can afford any explanation of the phenomena. An amusing writer who reviewed Mr. Jevons' work in the *Saturday Review* for November 11th, 1871, expressed himself dissatisfied with Mr. Jevons' theory of utility, and suggested that competition furnished the required explanation. He put an imaginary case, in which the British Museum, possessing all the Greek sculptures in the world, and the Louvre, possessing all the Roman statues, the two institutions should desire to exchange their sculptures with each other, and declared it would be impossible to decide on what terms the exchange would be effected, if there were no other competitors in the field. But if there were a hundred competitors, I do not see that the difficulty would be at all diminished, and to say that the rate of exchange was determined by competition, would be simply to say that the rate was such as was agreed on, and that the sculptures exchanged at the rate at which they did exchange. As, therefore, all the theories which I have met with appear to me to be truisms, and, as I am unable to devise one which will satisfactorily account for the phenomena of market value, I am forced to leave them unexplained. I will not presume to say that the explanation will never be discovered, but I may observe that Political Economy is not the only science in which phenomena can only be predicted within certain limits, and in which a margin has to be left for unknown disturbing causes. In astronomy, the return of the more eccentric comets can only be predicted within a few months, or even years; and the time of high and low water at different places on the coast does not always agree precisely with the calculations of the Almanack. The value of commodities which are produced in order to be exchanged tends to conform to the amount of labour which their production has required; but when they have been produced, and no others can be made like them, the fluctuations of their value cannot be predicted; and, though I do not doubt that these phenomena, like all others, conform to law, I am not in a position to say what the law is.

CHAPTER III.—WAGES.

GENERAL CAUSE OF WAGES—OTHER THEORIES CONSIDERED—ADVANTAGES OF SOME EMPLOYMENTS—SKILL—CERTAINTY OF EMPLOYMENT—WAGES IN DIFFERENT PLACES.

THE product of industry is divided among three classes; those who possess the land, those who provide the capital, and those who perform the labour necessary for production.

These are called landlords, capitalists, and labourers; and the shares which they receive are called rent, profit, and wages, respectively. It may, and often does happen, that the same person performs all these functions, as is the case with the peasant proprietors in France and other countries, or any two of them may be discharged by the same person, but it will be more convenient to treat the subject as if the landlord, the capitalist, and the labourer were three distinct persons, as is usually the case in England, and the principle may be applied to other cases by regarding the income of a person who discharges two or three of these functions, as consisting of two or three parts, each of which is the effect of a different cause. In this place it is the labourer's share which is to be considered; and I have to explain what is the cause on which the rate of wages depends. By the rate of wages is commonly meant the sum of money which is paid to the labourers for a given amount of labour, and it is clear that to ask why a labourer receives a gramme of gold for a day's labour, is the same thing as to ask why a gramme of gold exchanges for a day's labour, and that the question must receive the same answer. As, therefore, I have said in the last chapter that a gramme of gold exchanges for a day's labour when it is produced with a day's labour, so I now say that a labourer earns one gramme in a day when it would take him a day to extract one gramme from a mine; and the rate of wages depends on the efficiency of labour. The same holds true of all other commodities as well as gold; and nine days' wages are equivalent to a hectolitre of wheat, because it requires nine days' labour to produce that quantity. Wages, when measured in corn, are higher in America than in England, because corn requires less labour to produce in the former country. Wages, when measured in coals, are higher at Newcastle than in London, because less labour is required to bring coals to the labourer's dwelling in the former town.

The amount of comfort which a labourer enjoys depends on his power

of procuring a great number of articles; and as the cost of different articles varies greatly from place to place, and as what is cheap in one place is dear at another, where something else may be cheap which is dear at the former, it is difficult, if not impossible, to decide in what country wages are high or low, when by wages is meant the labourer's command of commodities in general. It is generally supposed that wages are higher in America than in England; but persons who have taken considerable pains to investigate the subject have arrived at the conclusion that an English labourer has about the same power of obtaining the articles which he requires as is enjoyed by an American, and that the higher money-wages of the latter are neutralized by higher prices. It has even been contended that wages, as measured by the amount of comfort which they afford to those who earn them, are about the same in all parts of the world. I do not pretend to decide these questions, because they appear to me to be too vague to admit of a satisfactory answer, for, if a labourer in one country can obtain an article which is wholly out of the reach of the labourers in another country, who make great use of another article which is inaccessible to the former, I do not see by what test we can decide which is the best off. The power of the labourer to obtain any commodity depends on the cost of its production, and his general command over commodities is the complex result of the efficiency of his labour in many different employments. Every improvement in production makes some article or other more easy to obtain, and thus tends to raise wages, but some other cause may be operating in an opposite direction with regard to some other article, and we cannot say with certainty that wages are higher now than they were a century ago, unless we know that the labourers can obtain all that they could before, and something else in addition. As there is a constant tendency to improvement in manufactures, while there is a constant tendency to an increase in the cost of raw produce, wages are exposed to two opposite influences; the one tending to raise, and the other to lower them, as society advances. Some writers, as, for instance, Mr. Froude and Mr. Thornton, have endeavoured to prove that the English labourers were formerly better off than at present, by showing that at certain periods they could obtain more of the necessaries of life than they can now do with the same proportion of their wages; but this is not sufficient to prove their point. If a labourer is now obliged to spend nine-tenths of his wages on the necessaries of life, of which he could formerly procure the same quantity with one-half of his wages, it does not follow that he is worse off at the present time, for the one-tenth which is still left him may procure him more luxuries than the half would formerly do. There are many signs which indicate that the condition of the labourers

has been constantly improving, both in this and other countries, and perhaps the most unmistakable evidence of the fact is furnished by the gradual diminution of the rate of mortality, which is the same thing as an increase of longevity, and shows that the people are exposed to less hardship than formerly. Another proof is the substitution of wheat for rye as the common food of the people, which took place in England in the first half of the last century, and has been effected in a great part of France since the revolution. Wheat has always been dearer than rye, and the change shows that improvements in other branches of industry have enabled labourers to obtain other things with a smaller portion of their wages, and thus to spend a greater portion on food. The use of tobacco, tea, coffee, and other foreign products now so common among the labourers, is another benefit conferred on them by the progress of industrial improvement, of which the extension of trade with foreign countries is a signal example. The introduction of cheap newspapers, which are now within the reach of, and are to some extent used by, the poorest class of labourers, is another consequence, and that a most important one, of manufacturing improvements, for they could never have been produced at so cheap a rate unless the arts of printing and of paper-making had been invented and brought to a high stage of perfection. Some have doubted whether the progress of industry confers any benefit on the labourers, but as every improvement reduces the cost of manufacturing some commodity or other, the cost of obtaining such articles must be reduced, and it must become more easy for the labouring classes to obtain them. The labourers' cottages are better built and better furnished than they formerly were, and if meat and dairy produce are dearer than they were, it is clear, at all events, that the labourer gets enough to live on, and, if he gets more comforts in addition, he is better off, even though his expenditure on necessaries is greater in proportion to his income.

When I say, therefore, that wages have a tendency to rise as society advances, I mean that the labourers can obtain all the commodities which they could in the earlier stages of society, and many others in addition. Wages, when measured in raw produce, depend on the cost of raising it in the worst circumstances. If a farmer, employing instruments which have required the labour of two men for a year to produce, and employing directly three men on his farm, produces a crop of 210 hectolitres of wheat on the margin of cultivation, the wages of the five men will be 200 hectolitres, or 40 a-piece, or a sum of money of equal value; his profit being estimated as before at 5 per cent. If their labour becomes more productive so that they produce 252 hectolitres, competition will compel the farmer to reduce the price, and sell the total crop for the same sum

as before, and as he will pay the labourers the same sum of money as before, their wages will have risen if measured in wheat. If, while the labourers produced as much as before, the price of wheat rises by one-fifth, the labourers will demand an equal rise of money-wages, and will compel the farmer to content himself with the ordinary rate of profit. In the one case it is the value of wheat, and in the other, the value of gold which has fallen, and in both the capitalists are compelled to content themselves with the same rate of profit, and the rate of wages, therefore, varies with the efficiency of labour. If all labourers worked on their own account, were all of equal skill, and were all free to change their employment, and if all employments were equally agreeable, it is obvious that the rate of wages, in whatever article it were measured, would depend on the efficiency of labour in producing the article in question. If it required one day to make a pair of shoes, the tailor, the baker, and all other labourers would earn a pair of shoes by a day's labour at their respective trades, and the same principle will apply to all other articles, all of which would be earned with as much labour as it required to produce them. We know that in point of fact some kinds of labour receive higher wages than others, and the causes of these differences will be examined shortly, but the fundamental principle which determines the rate of wages in any employment is the one above stated, and the intervention of money does not put an end to, though it somewhat obscures, its operation.

I have already developed this theory of wages in the "Westminster Review" for January, 1872, in an article which was written before I was aware that a precisely similar theory had been previously put forward by Mr. Jevons in his "Theory of Political Economy." He has expressed it in the formula that the wages of a working man ultimately coincide with what he produces, the word "ultimately" being inserted in order to show that the theory does not apply to every individual case, and I wish my theory to be taken with the same qualification. Employers may for a time obtain more than the usual rate of profit, but not for a longer time than is necessary to enable fresh competitors to enter the field, and workmen may sometimes be glad to work for much less than the ordinary wages in order to save themselves from starving. High wages are sometimes given in a particular trade which is more than usually active, and this is probably because the men are kept more constantly employed, and therefore do more work in the same time. There are, however, other cases to which a similar explanation cannot be given, and these I must leave unexplained, like the similar cases of market value. The theory not only has the support of the able writer just referred to, but it agrees with and explains the opinions constantly expressed by practical

men, both employers and workmen. The former say that they pay for labour as much as it is worth, *i.e.*, that they reward it in proportion to its efficiency, and that the wages which they pay to each workman are equivalent to the contribution which he makes to the common product. The latter are fond of saying that they want "a fair day's wages for a fair day's work," *i.e.*, that their wages ought to be equivalent to the portion of the product which owes its existence to their labour, and that the employer should receive only the ordinary rate of profit on his capital; and if the wages which they receive are less than this, they do their work in a slovenly manner, and, if the employer remonstrates, they reply that they are doing as much work as they are paid for. In both these phrases, therefore, it is implied that the whole product remunerates the labour and abstinence employed, and that the shares of both parties rise and fall with the amount of the product, and hence that wages depend on the efficiency of labour.

As Adam Smith regarded value and wages as the same phenomenon, his explanations of them are substantially the same. As he held that in an early stage of society the value of commodities depended on the quantity of labour required to produce them, so he held that before capital had been accumulated or land appropriated, wages depended on the efficiency of labour. In a more advanced state of society, when the product of industry was divided among landlords and capitalists as well as labourers, as the latter no longer obtained the whole of what they produced, and as he did not know what determined the shares of the other two classes, he considered it impossible to decide what determined the rate of wages, and could suggest nothing except a minimum rate below which it could not fall—that, namely, which was just sufficient to provide the labourers with the necessaries of life. It will be observed that I have spoken of the efficiency of labour on the worst farms and in the worst mines as determining the rate of wages when measured in raw produce, and, as these pay no rent, the landlords may be left out of consideration; and I have also assumed the rate of the capitalist's profit to be stationary. Ricardo adopted Adam Smith's suggestion at a minimum rate, and, by calling it the natural rate, endeavoured to explain the rate of wages prevailing in any country by saying, that it was such as was necessary to enable the labourers to maintain themselves and their families in that state of comfort which they regard as essential to their happiness, and without which they will not propagate their race. Adam Smith seems originally to have meant no more than that labourers cannot live unless they have enough to live on; but he subsequently includes amongst necessaries all those articles which in different countries are considered as indispensable in order to enable the

common labourers to keep up a decent appearance. With his usual desire to verify his theories by reference to facts, he pointed out that the wages of common labourers were nowhere reduced to the minimum rate, as was proved by the fact that the rate of money-wages often remains the same for years, and even for half a century together; while the price of food was subject to very great fluctuations. Ricardo, however, considers that the rate of wages must in the long run conform to the cost of food, and that if the price of food rises, the rate of money-wages must rise to such an extent that the labourer can obtain the same quantity of food and other necessaries. If asked why the rate of wages commonly paid in England secures to the labourers a certain quantity of commodities, he would reply that it is because the habits of the people make them determined to obtain that quantity; and if they cannot obtain it they will not propagate the race. But he gives no proof of the attachment of the people in any country to a particular rate, except that it actually prevails there; and if we want to know why the ordinary rate is higher at one time than at another, he has to refer to other causes to explain it. He considers that a labourer may obtain more gold, though he produces the same quantity as before, and, as this implies that the capitalist receives less, it will be more convenient to discuss this point in the following chapter, which will be devoted to the subject of profit. The market rate, he thinks, may rise above the natural rate, but, if this happens, an increase of population will take place which will reduce the rate again, unless in the meantime the natural rate has risen; or, in other words, unless the people have become attached to a high standard of comfort, and refuse to put up with less. This natural rate appears to me to be too vague an idea to form part of a scientific explanation, for, if wages, after a temporary rise, sink to their former level, we are told that they have returned to their natural rate; and if the rise is permanent, we are told that the natural rate has risen. What then is the difference between the natural rate and the actual rate, and what more does the theory tells us than that the rate of wages is what it is? An increase of population may lower wages in so far as they are measured in raw produce, but it has the opposite tendency in so far as they are measured in manufactured articles, since it causes them to be produced on a larger scale, which admits of greater division of labour and diminishes the cost of production. It is then by no means clear that an increase of population will diminish the labourer's comfort, since what he looses in one direction he may gain in another. Ricardo supposes on the other hand, that if the market rate falls below the natural rate, a diminution of the population will raise it again, and the same objection applies to this argument as to the preceding. Ricardo's views are somewhat obscure,

but they have been more clearly expressed and further developed by Mill, who considers that a series of abundant harvests may for a time improve the condition of the labourers by rendering food cheap, but can have no permanent effect unless it continues long enough to work a change in the habits of the people, and to make them resolve rather to restrain their powers of multiplication than to forego any of the advantages which the cheapness of food procures them. The remarkable series of fine harvests which continued from 1715 to 1765, produced, he considers, a permanent effect because it continued long enough for a generation to grow up in improved circumstances, and thus become habituated to them; but he thought it doubtful whether the repeal of the Corn Laws would produce any permanent improvement, and thought it would depend on the question whether the people exercised sufficient prudence in matrimonial matters. He refers his readers to Mr. Thornton's work on "Over-Population and its Remedy" for abundant evidence to show that in more than one instance in our history the labourers have forfeited their temporary advantages by imprudence in this respect; but, on consulting that able and ingenious work, I have not found sufficient evidence to establish this proposition. All that Mr. Thornton has shown is, that at some periods the labourers could obtain less corn and other raw produce than at some former periods; but he does not show that they were worse off at the later periods, or that the dearness of raw produce was in any way owing to any cause subject to their control. It will be seen that both Ricardo and Mill recognise that wages rise when food is cheap, and they thereby admit to a certain extent that wages depend on the efficiency of labour, but they regard the labourer in the light of a machine which can only be kept in working order by being supplied with sufficient fuel, while I regard him as an independent worker who will not labour for others unless they will give him as much as he can produce for himself. Mill considers that if food becomes permanently dearer, the labourer's wages must still bear the same proportion to the price of food, because otherwise he could not continue to produce. I contend, on the other hand, that if he produces less, he must receive less; and that if he does not produce enough to support himself, the country will be depopulated, but wages will not rise. Mr. Rogers has another theory on the subject of wages, which is, that the rate depends on the cost of maintaining children up to the age at which they are capable of labouring, and that it is, so to speak, the interest on the capital which the parents have expended in rearing and educating them. This theory might account for the higher wages paid in those employments which require long apprenticeship, or a costly education, though even in these cases the employer would not give higher wages unless

this previous training rendered labour more efficient; but if we are to suppose that the common rate of wages is the return for the capital expended in maintaining children before they are able to work, we must suppose that parents produce and bring up children with no other object than to secure them a certain position in the world, and that they are not influenced by the pleasure which they themselves derive from the possession of a family. The price at which a slave is sold, or let out on hire, must no doubt be sufficient to afford to the slave-breeder the usual rate of profit on the capital which he employs, but the parents of free labourers are actuated by other motives than the desire of gain for themselves or for their children; and they frequently obtain for their children an education in many things which can have no effect in raising their wages. To try the theory by a practical case:—How does it explain the rise of wages which took place in England in the first half of the last century, and consisted in the substitution of wheat for rye as the common food of the people? Here the money-cost of maintaining a child was the same after the change as it was before; or, at all events, it might have been the same, and yet an important change was effected in the rate of wages in so far as they measure the comfort of the people. It cannot be said that wages rose because it had become necessary to feed children on wheat, for they had for centuries been fed on rye, and there is no reason why the parents, who had themselves been fed on the latter grain should suddenly desire to feed their children on wheat. Reference to the efficiency of labour will at once explain the fact. Wages as measured in wheat rose because a series of favourable seasons rendered the labour of the farmers more efficient in producing wheat during the period 1715-65 than it had been before, and this enabled the people to obtain a greater quantity of it. They were able to use wheat as the chief article of food, because they could procure as much as they wanted without more labour than they had formerly expended in procuring rye; and the improvement was permanent, because manufacturing improvements enabled them to procure the other articles which they wanted with less labour, and thus they could still consume wheat even when the seasons were unfavourable, and when therefore they had to give more labour in exchange for it. Michelet mentions in his charming little work "Le Peuple," that the labouring classes in France make a much greater use of linen and cotton goods than they used to forty years ago, and he regards this as a striking proof of the improvement of their condition. This is easily accounted for by the numerous improvements which have been introduced into those branches of manufacture, but Mr. Rogers' theory does not explain it, for the cost of maintaining children has not undergone any alteration which could make it necessary for

them to obtain such a rate of wages as would enable them to purchase these articles. Both the theory of Ricardo and that of Mr. Rogers are applicable to the rate of remuneration which is given to slaves, and they may apply to a few cases in which some classes of free labourers receive more than the usual rate. The puddlers in our iron factories, for instance, receive extremely high wages, partly in order that they may procure wine and other stimulants which enable them to support the exposure to intense heat which is required in that deadly occupation, the necessity for which will soon, let us hope, be done away with by self-acting machinery. I hope, however, that I have said enough to show that neither theory is sufficient to account for the ordinary rate of wages received by free labourers.

The market rate of wages depends, according to Adam Smith and Ricardo, on the proportion between the amount of the capital in a country and the number of the labourers. By capital they understand machinery, raw materials, and those articles which are necessary for the maintenance of the labourers, and they think that if the capital of a country increases while the number of labourers remains the same, each of them will receive a larger dividend. They speak as if capital were an independent agent which increased and diminished of its own accord, and do not seem to see that it is the product of labour, and that its increase implies that labour has become more efficient. They saw that wages, as measured in the principal necessaries of life, were high in America, and they also saw that capital was rapidly increasing there, and they concluded that wages were high, because capital was increasing too fast for population to overtake it. They saw that the great increase of machinery coincided with an improvement in the condition of the people, but they only dimly perceived the nature of the connection between these two facts. The introduction of new machines does raise wages, because it makes labour more productive; but they speak of the increase of capital as increasing the demand for labour; and Ricardo says that labour, like all other things, is cheap when it is plentiful, and dear when it is scarce; and that its price is regulated by the proportion between the demand for it and the supply of it. Later writers have adopted his theory with such modifications as they have thought necessary in order to make it strictly true; and seeing that machinery and raw materials are not divided amongst the labourers, they have left them out of the account, and, confining themselves to that portion of capital which consists of the food and other necessaries consumed by the labourers, they contend that the rate of wages depends on the proportion between this quantity of commodities and the number of the labourers. It is to this portion of capital that Mr. Jevons restricts the

use of the name, and to which alone the name has been applied in the present work; while Mill has coined the term wages-fund, and the theory is sometimes expressed in the formula that the average rate of wages depends on the proportion between the wages-fund and the number of the labourers. Senior's statement of the law is as follows:—(the italics are his).—"The proximate cause appears to be clear. The quantity and quality of the commodities obtained by each labouring family during a year must depend on the quantity and quality of the commodities directly or indirectly appropriated during the year to the use of the labouring population, compared with the number of labouring families (including under that term all those who depend on their own labour for subsistence); or, to speak more concisely, *on the Extent of the Fund for the Maintenance of Labourers, compared with the Number of Labourers to be maintained.**

Now, the average rate means simply the total amount of wages divided by the number of recipients, and Senior's theory is nothing more than the statement that the average is the average. Other writers have expressed the theory in different words, but their meaning is substantially the same, and, as they fix their attention on the amount of the fund, they maintain that an increase in the number of the labourers must diminish the average rate, because the quotient varies inversely as the divisor. The obvious objection to this argument is, that the dividend does not remain stationary, for if there are more people to labour they would produce more, and the fund will be increased; or, to use a popular expression, for every mouth which God sends into the world, He sends also a pair of hands. Mill replied to this argument by referring to the increased difficulty of raising raw produce, which is the effect of an increase of population, and thus tacitly admitted that wages depend on the efficiency of labour. But though it is true that the increase of population tends to lower wages in so far as they consist of raw produce, it does not follow that they always produce this effect, or that it is not compensated by the improvements in manufactures to which an increased consumption of manufactured goods gives occasion. It is self-evident that a man who has a large family cannot spend so much on his own comfort as a bachelor who receives the same wages; but it is by no means clear that a workman who produces a large number of children thereby diminishes the comfort of the other members of his class. I need not repeat the argument which I have already employed to show that an increase of population cannot raise the cost of the staple article of food, and though it may raise that of meat, butter, coals, &c., the privation will be felt rather by those who have in-

* (Political Economy.) Fourth Edition, p. 154.

creased their families beyond the limits of prudence than by those who have not, since the former, having more to provide for with the same sum of money, will be less able to submit to a rise of price, and will have to forego the use of these articles. I fully admit that much suffering is produced by the reckless manner in which poor people bring children into the world, whom they are not able to maintain, but it consists, it appears to me, in the distress, disease, and premature deaths to which their children are exposed, and not in a lowering of the general rate of wages received by the frugal and industrious. Mr. Longe in 1866 was the first to point out that the theory of the wages-fund must mean either that the average rate was equal to the whole sum paid in wages divided by the number of labourers employed, which was mere tautology, or that it was the whole sum divided by the whole number of persons employed and seeking employment, which was manifestly untrue. Mr. Thornton, who has discussed the subject at some length in his valuable work on Labour, denies that the rate of wages agreed on between the parties concerned is such as to equalize the demand and the supply; by which latter term is to be understood the number of labourers seeking employment, and, indeed, it is a familiar fact that there are always many persons out of work who are quite willing to work for the ordinary terms, which, however, are not lowered so as to give employment to them all. Mr. Thornton further denies that there is any fund in the country which is destined or set apart for the maintenance of labourers rather than for any other purpose, and thinking, therefore, that the wages-fund has no existence, he concludes that the theory is altogether untrue, and sees no reason why a combination of labourers may not raise the rate of wages, while both their number and the amount of capital in the country remain the same. Employers, he says, do not set aside a certain fixed sum to be spent in wages, but they devote to this purpose whatever sum is agreed on by a bargain between themselves and the labourers, and this sum is not divided amongst all who are seeking employment, and there is, therefore, no fixed wages-fund from which the rate of wages can be ascertained by a sum in division. His arguments have been exhaustibly examined by Cairnes in his latest work,* and the gist of the reply there given is that though individual employers do not know beforehand the exact sum which they will have to spend on wages, nevertheless, the whole class of employers are obliged by the desire of profit to set aside a certain portion of their wealth to this purpose. In a given state of the arts there is a certain proportion in which capitalists must distribute their expenditure among the different heads of raw materials, machinery, and wages, if they would carry on their business with profit, and it may,

* Leading Principles of Political Economy. Part II, chap. 1, sec. 2.

therefore, be predicted, that this proportion will, as a general rule, be preserved. The wages-fund may, therefore, be considered as a real entity, since, however indefinite it may be, it is made up of various amounts which the motives of self-interest will impel capitalists to employ in the payment of wages, and individual caprice has very little power to affect its amount. But while unable to concur with Mr. Thornton in thinking that the wages-fund has no existence, I consider that his arguments are enough to show that it cannot furnish a satisfactory explanation of the problem of wages. Granting that the wages-fund is a fixed quantity, there still remains the objection that we must either suppose it to be divided amongst all the labourers seeking employment, or amongst all those who are actually employed. The former supposition is manifestly at variance with the facts, and the latter, though correct, does not explain the matter. If we ask why wages are higher at one time or place than at another, we are told that the wages-fund is larger in proportion to the number of the labourers; but this is merely re-stating the fact that wages are higher, since the average amount is nothing but the total amount divided by the number of the recipients.

Mr. Jevons,* who tells us that he has long held that the theory of the wages-fund is no more than the statement that the average is the average, considers nevertheless that it may explain some temporary fluctuations, such as a rise of wages when a large number of labourers are required to build an embankment or other great public work. I must confess myself unable to follow this reasoning, or to understand how the statement that the average pay of the labourers who constructed the Thames Embankment was exactly equal to the total sum disbursed amongst them, divided by their number, can explain the rate of their wages any more than a similar statement can explain the average rate of wages prevailing in the country. For my own part I consider, as I have already observed, that fluctuations in the rate of wages depend on fluctuations in the efficiency of labour, and that the number of unsuccessful competitors for employment is not the cause of the rate of wages, but a sign which indicates that the labour of those who are employed is more or less productive. When a trade (as the building trade for example) is unusually active, the employers are anxious that the workmen should do as much work as possible in a limited time, and by giving higher wages they may induce the men to work longer or harder, and as they can always find something for them to do, there is more work done in the same time. When trade is slack the employers do not always dismiss all the men whom they can spare, but prefer to keep

* Theory of Political Economy, chap. VIII, pages 259—262.

many of them in their service in case things should take a turn, and in such a case, though the men work nominally for the same time, they do not do so much, and as the things which they produce are not wanted by the other classes of society, their labour exchanges on less favourable terms. In the former case there would be a small number of men seeking employment in that particular trade, and in the latter case a large number, and it would be said that wages were high because there were few competing for employment, and low because there were many, but the number of competitors is not the cause, but only the symptom. There are few competitors for an employment in which great skill is required, but the skilful man receives higher wages because his labour is more efficient than that of the unskilful, and it is only looking at the surface to say that he receives them because such men are scarce. The French refugees, to whom London has so often afforded an asylum, receive low wages because they are not able to do any work except that of teaching their own language, and there are too few people desirous of learning French to employ them all, and those who employ them do so rather from motives of charity, so that here again it is their inefficiency which is the cause of their low remuneration, and their competition for this one employment is the sign of their inaptitude for all others. All the theories which I have now examined, except that of Mr. Rogers, assume in some degree that wages depend on the efficiency of labour, and the explanations which they give may be reconciled with mine, but it appears to me that the efficiency of labour will suffice to explain all cases except a few which cannot be explained at all, and my theory is deducible from the fundamental principle of human nature, on which all economic reasoning is based. As long as wages are regarded as a whole, all explanations which would account for so complex a phenomenon must partake of the vagueness of the idea itself, and I have thought it better to divide wages into the articles of which it is composed, and to account for each of them separately; and when this course is pursued, it becomes apparent that value and wages are the same phenomenon, seen from two different points of view, and must receive the same explanation.

I have hitherto assumed that all labourers possess equal strength and skill, and that it is a matter of indifference to them what employment they follow, and if such were indeed the case they would all receive the same rate of wages. But such is not the fact, and I have now to explain the causes of the different rates of wages which prevail in different employments. For the purpose of comparison it will be convenient to take them as measured in the same commodity, which will, of course, be money, as being that in which they are commonly measured. Adam Smith mentions five circumstances which cause the rate of wages to be lower in some trades and higher in others, which are as follows :—"First,

the agreeableness or disagreeableness of the employments themselves; Secondly, the easiness and cheapness, or the difficulty and expense of learning them; Thirdly, the constancy or inconstancy of employment in them; Fourthly, the small or great trust which must be reposed in those who exercise them; and, Fifthly, the probability or improbability of success in them." (Book 1, chap. 10.) If one employment is particularly disagreeable, those who engage in it naturally require higher wages in order to remunerate them for the greater sacrifice which they make for the sake of others, and if this compensation were not forthcoming, no one would engage in that trade when he could obtain as much by working at one which was more agreeable to him. This may be illustrated by the case of domestic servants, who are obliged to sacrifice their independence and to be always ready to submit to the orders of their masters, and who can never take a holiday, or do anything which requires them to be absent from the house, without asking leave. While common labourers receive about 800f. a year, the wages of a man-servant, counting his board and lodging, as well as the money which he actually receives, amount to 2,500f. a year, or about three times as much as those of the common labourers. It is true that the servant is obliged to buy more expensive clothes, but this will only account for a small portion of the difference, and the determination which is shown by this class to obtain as high wages as possible, and the eagerness with which they embrace the first opportunity of leaving service, shows that they consider it to be a disagreeable employment. An illustration of the opposite kind is afforded by the case of ministers of religion and teachers of science, who often engage in their work much less for the sake of the remuneration which they themselves obtain than for the sake of performing a duty to society, or enjoying the pleasure which their occupations afford. It has often been remarked that the wages of both these classes are extremely low; not, indeed, when compared with those of common labourers, but when compared with the remuneration received by persons engaged in commercial business, and with the general scale of incomes in the class of society with which they are expected to mix. This has been regarded as a proof of the indifference of the public to the service which these classes render to the world, but what it really shows is that they are highly appreciated, that there are many persons who are willing to engage in these employments with but small pecuniary rewards, and that public esteem is one compensation to which they look. It has often been attempted to do away with this state of things by means of endowments, and the retention of rich bishoprics and deaneries in the Church of England has been defended on the ground that they hold out an inducement to able men to enter Holy Orders. This is a singular argument to be used in regard to such a profession, for, if a few ambitious

men are tempted by such baits, they must be the very men who are the least fit for such posts, and whom it would be most desirable to exclude. But, however rich the endowments of a Church may be, it is always found that they are engrossed by a portion only of the clergy, and that a great number of these are always extremely poor. It is the same with regard to the teachers of science, and the same remedy has been applied to the supposed evil in the form of collegiate endowments. The same objection applies to these as to ecclesiastical endowments, viz.: that they tempt men who do not feel any great desire to promote the progress of science to become candidates for professorships, and though it is true that a richly-endowed chair may be filled by an eminent man, his chance of obtaining it is diminished by the inducement which it holds out to inferior men to become candidates for it. Mr. Pattison, after telling us that a "buyer," or head of a department in a Manchester house receives a salary of 25,000f. a year, suggests that the salaries of Oxford professors should be fixed more or less with reference to this amount, as if the same class of men were to apply for both employments, and as if the professorships had no charms of their own which could make them desirable for any other purpose than that of affording a living. There is another objection to these endowments, that they weaken the incentives to activity on the part of the teachers by making them independent of the fees of their pupils, a point which has been insisted on with great force by Adam Smith,* who illustrated his argument by referring to the state of things in the University of Oxford, of which he had himself had experience as an undergraduate.

Those who have never read his work, and who have no conception of the nature of his method of reasoning, imagine that he inferred that all endowments were bad because the teachers at Oxford in his time were inefficient, but he adduced the case of Oxford, as he did all other facts to which he referred, as an illustration merely, and those who contend that professors who are independent of the fees of their pupils may be kept to their work by the control of the Government, or by public opinion, do not in any way shake the force of his reasoning, the object of which is to show that endowments *tend* to diminish the activity and efficiency of the teachers, and not that this tendency cannot be overborne by other forces. He discussed the case of Government control, and pointed to France as an instance of the evil effects of the interference of Government with an University, and his remarks are equally applicable to the University of Paris at the present day. The modern advocates of University endowments refer to Germany as an example in which good effects are produced without any compensating evils, but in Germany a great deal of the work of teaching in the Universities is performed by the "Privat docenten,"

* Book V., chap. 1.

who are paid entirely by fees, and the professorships are generally of but moderate value; moreover, the German Governments exercise control over the Universities, and the advocates of endowments admit that but for this control the system would not work well. Endowments are also open to the objection that as they make the teachers independent of the learners, they tend to keep up the teaching of subjects which nobody wishes to learn, as is exemplified in England, France, and Germany, in all of which countries more attention is bestowed on the classical languages than would be the case if the teachers were obliged to teach simply what the people wished to learn. Adam Smith thought that collegiate endowments produced the effect of bringing up more men to the literary profession than would otherwise have entered it, and so diminished the earnings of literary men by crowding the profession with too many competitors. But there is no reason to invoke such a cause to account for the low remuneration of this class, which can be sufficiently accounted for by the pleasure which the occupation itself affords. Many authors write simply for the sake of enlightening the public mind, or of gaining reputation, and they often do so without any pay whatever, and it is not sufficient to say that there is too much competition for them to earn anything, for we have to explain why they continue to work without pay, instead of ceasing to do so as any other class would do, and this can only be explained by the agreeableness of the employment. Many periodicals continue in existence for years without paying anything to the authors who contribute to them, but they cease as soon as it is found that they do not bring in enough to pay the printer's bill.

The most important differences between the rates of wages prevailing in different employments proceed from differences in the amount of skill required in those who work at them. More skill is required in the work of a carpenter or a mason than in that of a common labourer, and it is invariably found that the wages of the former classes exceed those of the latter, though the difference is not always the same, but is sometimes less than 50 per cent., and sometimes more than 100 per cent. in favour of the skilled artisans. In 1871, for example, in the London building trade, the wages of the common labourers were 52c. the hour, while those of carpenters, masons, bricklayers, and plasterers were 82c. the hour, and similar differences existed between the skilled and unskilled workmen in other trades. Adam Smith accounted for these differences by saying that these trades were more difficult to learn than the work of the common labourers, and that the higher rate of wages was necessary to compensate the trouble and expense incurred in serving an apprenticeship in order to learn the trade. This explanation, though sound as far as it goes, does not appear to me to be quite satisfactory, and the differences in the rates paid in different employments seem to me to

spring from the same cause as the differences in the wages of different individuals working at the same trade, viz.: the inequality existing between the efficiency of the labour of different men. A carpenter receives more wages than a common labourer because it is found by experience that a man who has received a special training to fit him for a carpenter's work can do more work than a man who has not devoted himself to it, and if a carpenter's wages are twice as high as those of a common labourer, it is because it is found that one carpenter can do twice as much carpentering in the same time as a common labourer; either because he actually works more quickly, or because he spoils less, and so is less under the necessity of doing his work over again. The trouble and expense which must be incurred by every one who wishes to enter the carpenter's trade do, no doubt, prevent many men from entering it and bringing down the rate of wages to the general level, but if the skill of these mechanics were not acquired, but natural, I apprehend that the same difference would show itself between their wages and those of unskilled labourers, if the efficiency of their labour stood in the same proportion to that of the latter class. It may be objected that the labour of an agricultural labourer is more efficient than that of a novice, and that there is no difference in this respect between them and mechanics; but, in fact, there are similar differences between the wages of farm labourers of different degrees of skill, but in their case the novices are children, who learn the more difficult parts of their work while practising the more easy, and I apprehend that a farmer would lose less by employing a labourer who had always lived in a town, and giving him the same wages as one who had been used to farming, than a builder would lose by doing the same thing with an untrained carpenter.

The reason why those who suffer from any infirmity, such as blindness, which interferes with their powers of working, receive lower wages than others who have the full possession of their faculties is perfectly obvious. As there cannot be two prices in one market, the things produced by the blind must sell for the same price as articles of the same kind produced by the seeing; and, if the blind cannot work so well, or so quickly as the others, they must receive less wages in the same time. In this country it is almost impossible for a blind person to maintain himself by manual labour, for though the baskets and brushes which are made by this class are nearly, or quite as good, or even better than those made by the seeing, the blind cannot work so quickly, and they therefore receive less wages than the latter. The employments which they pursue are, of necessity, of the easiest and simplest kind, and the wages of other workmen in those trades are accordingly very low, and such as to afford little more than the necessaries of life, while the blind receive still less than these, and it is consequently found necessary to supplement their wages by

charity in some form or other, if they are to be maintained at all. In the United States the difficulty is not so great, for though the blind receive less than the seeing, yet the labour of the latter in producing the necessaries of life is more productive in that country than in England, and the blind can at least manage to earn enough of these. In the United States, as in France, a few of the blind who possess musical talents, are able to earn a comfortable maintenance as piano-tuners, because this is an art in which great skill is required, and to the acquisition of which blindness is scarcely a hindrance, but in some cases an assistance. Special training is required to fit them for this work, but the reason why they earn more in this way is, that their labour is more efficient.

I am now in a position to examine Babbage's theory respecting the advantages of the division of labour to which I referred in the chapter on Labour (Book I., chap. 2), but which I could not thoroughly discuss in that place. It was his opinion that Adam Smith had overlooked the most important advantage afforded by the division of labour, viz.: that it enables the employer to obtain just that quantity of skilled and unskilled labour which he requires, and, by employing the less skilful labourers in the simpler parts of the work, to reduce the price of the article by saving all the difference between their low wages and the high ones which he would have to pay to the most skilful labourer, if he alone performed the whole of the work. After describing the processes of which pin-making consists, and mentioning the rates of wages paid to the different classes of workmen employed, he gives in the following Table the time employed in making a pound of pins, and the amount of money paid to the different persons who make them.

Name of the process.	Workmen.	Time for making 1lb. of pins.	Cost of making 1lb. of pins.	Workman's earnings per day.	Price of making each part of a single pin in millionths of a penny.
		Hours.	Pence.	s. d.	
Drawing Wire	Man	.3636	1.2500.	3 3	225.
Straightening Wire ..	Woman	.3000	.2840.	1 0	51.
	Girl	.3000	.1420.	0 6	26.
Pointing	Man	.3000	1.7750.	5 3	319.
Twisting & Cutting Heads	Boy	.0400	.0147.	0 4½	3.
Heading ditto	Man	.6400	.2103.	5 4½	38.
Heading	Woman	4.0000	5.0000	1 3	901.
Tinning or Whitening	Man	.1071.	.6666	6 0	121.
	Woman	.1071.	.3333	3 0	60.
Papering	Woman	2.1314	3.1973	1 6	576.

After giving this table he observes:—"It appears from the analysis we have given of the art of pin-making, that it occupies rather more than seven-hours-and-a-half of time for ten different individuals working in succession on the same material to convert it into a pound of pins; and that the total expense of their labour, each being paid in the joint ratio of his skill, and of the time he is employed, amounts very nearly to 1s. 1d.

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"Now, it is evident that if one person were required to make the whole pound of pins, he must have skill enough to earn about 5s. 3d. per day, whilst he is pointing the wires or cutting off the heads from the spiral coils, and 6s. when he is whitening the pins; which three operations together would occupy little more than the seventeenth part of his time. It is also apparent that, during more than one-half of his time, he must be earning only 1s. 3d. per day in putting on the heads; although his skill, if properly employed, would in the same time produce nearly five times as much. If, therefore, we were to employ for all the processes, the man who whitens the pins, and who earns 6s. per day, even supposing that he could make the pound of pins in an equally short time, yet we must pay him for his time 46.14 pence, or about 3s. 10d." (Economy of Machinery and Manufactures. Chap. 19).

Hence he infers that the division of labour reduces the price of a pound of pins from 3s. 10d. to 1s. 1d., or to about two-sevenths of what it would be if all the processes were performed by one man, even supposing that he could make the same quantity in the same time. As may be supposed, I have no intention of impugning the accuracy of the calculations of so eminent a mathematician, in so far as it is a question of arithmetic; but I object to the Economic theory that a man who can earn 6s. a day by whitening pins must receive equally high wages if he spends the greater part of his time in performing simple operations which he does no better than other persons who earn 1s. or 4½d. a day. I contend that the only reason why the whitener receives higher wages than the others is that his labour is more efficient, and that no employer would pay this higher rate unless the workman's skill produced a corresponding advantage by yielding a greater product. It appears, indeed, from the analysis of the art of pin-making which Babbage has given in the same chapter that the men are paid by the piece, and consequently that their wages depend entirely on their efficiency, and that the division of labour enables the whiteners to earn high wages by concentrating their labour on one process. The way in which the division of labour arises is, that a man finds that he can earn more by employing a woman or a child to do the simpler parts of his work, and confining himself to

the more difficult. If one man alone were employed to make a pound of pins, he could still do it for 1s. 1d., and it would still be his interest to do his work as well and as quickly as possible. If he could do the whitening as well as one who devotes his whole time to it, he would be as well paid during the time so employed; but during the rest of the time he would only earn as much as those who devote themselves to the other processes. He could not compel his employer to give him 3s. 10d. on the ground that he had sufficient skill to earn that sum as a whitener, for the employer would say that he only derived a benefit from the workman's skill when employed in his service. If the skilful workman refused to work on such terms, the employer could still get the work done at the same price by giving it to an inferior workman, for though the latter would take a longer time to do it, and would spoil more pins in the process, his wages would be lower, and the loss would fall upon him rather than on the employer. The case is, of course, quite imaginary, for the division of labour enables men to acquire much greater skill in the particular process to which they devote themselves, but under the conditions supposed I contend that, as the quantity and quality of the labour employed would be the same, the value of the article produced would be the same also. The author of an amusing little book about Queensland* informs us that the shepherds in that country are, for the most part, "broken-down swells," and that he once worked on a station on which there were three other shepherds besides himself who had been educated at English universities or public schools, yet the superior education which these men have received does not enable them to earn higher wages than others who are equally conversant with the business of a shepherd. It is quite true that society derives an advantage from the division of labour, in so far as it enables the more skilful labourers to devote themselves to the more difficult work, but this consists in the greater productiveness of their labour when so employed, and they reap the benefit of it in higher wages, and the general wealth of the whole society is increased. This is not expressly mentioned by Adam Smith, but he, perhaps, included it among the advantages conferred by the increased skill of the workmen, and though Babbage himself regarded his theory as one of his chief contributions to human knowledge, I am driven to the conclusion that a great part of his argument is fallacious, and that he has failed to give a correct arithmetical expression to the benefit which the division of labour confers on society.

Under the same head may be classed the high rates of wages paid to

* Colonial Adventures and Experiences. Bell and Daldy, 1871.

those in whom great trust is reposed. Just as a carpenter receives more than a common labourer because he does his work better, so a bank manager receives a higher salary than a clerk, because it is found that efficient management is more essential to a bank than good writing, and that a more efficient manager, and one who will more thoroughly devote himself to the service of the bank, may be procured by the offer of a high salary.

Workmen will engage to work for lower wages if they are assured of constant employment than if they are liable to be dismissed whenever the position of the particular trade in which they are employed is such that it is no longer profitable to retain them. This explains why the labourers in the Government Docks are paid less than those in private yards, and yet the Government has no difficulty in obtaining as many men as it requires, and loud complaints are heard when they are dismissed in consequence of the closing of a dockyard. Though the rates of wages are different when single weeks are compared, it is probable that the difference would be very much diminished if the comparison were extended over a series of years, and as the Government employés are paid when they are doing little or nothing, the amount of labour which they do in return for their pay is probably about the same as that performed by the employés of private shipbuilders.

Adam Smith considered that the prospect of success in a particular profession had some influence on the wages of those who followed it, and that if in any one profession a great number of persons who engage in it failed to earn a living, the gains of those who succeed must be higher in order to compensate for the risk of failure which they had incurred. He explained the high fees received by advocates by pointing to the number of young men who embark in that profession, but who do not earn enough to pay their expenses, and maintained that though the one who succeeded did not gain all that was lost by the nineteen who failed, his high pay was at least some compensation for the risk of failure which he had incurred. Cherbuliez (vol. 1, p. 431), contends that Adam Smith has put the cart before the horse, and that it is because the earnings of barristers are so great that more men are induced to enter the profession than can earn a maintenance by it. Senior, however, has cut the ground from under the disputants by denying the fact that success at the bar is extremely uncertain. He has, he tells us, watched the career of more than a hundred young barristers, and wherever diligence has been applied, success has been the almost invariable result. Although his opinion is contrary to that which is generally received, yet as it was the result of long observation and experience, it is much more deserving of credit, and the numerous instances of apparent failure are

probably those in which the barristers do not care about success, but are content with the income which they receive from other sources than their profession. It is well known that many persons are called to the bar who have no desire to live by their profession, but who use it as a mere excuse for idleness. The extremely large incomes received by distinguished barristers are the rewards of their superior efficiency, like the higher wages of skilful workmen in other trades, but the advantages derived from superior skill are increased in this case by the peculiar custom of the trade, or as it is called, the "etiquette of the bar," according to which a barrister who receives a brief in a case which he is unable to attend, may ask a friend to do his work for him, but is not expected to give him more than half the fee at the Chancery Bar, or anything at all at the Common Law Bar. These are all, or, at least, the chief circumstances which determine the different rates of wages prevailing in different employments, and as there are always many people who are willing to change their employment, there is a constant tendency to bring down the rate in each particular employment to that which will just compensate the advantages or disadvantages which it possesses when compared with other employments.

As wages depend on the efficiency of labour, it follows that, if the same article be produced in two different districts, in the one with a smaller, and in the other with a larger, quantity of labour, the wages of the labourers measured in that article will be higher in the former, and lower in the latter district. If the produce of both districts be sent to the same market, it will be sold at the same price; and if the cost of transport be the same in both cases, the rate of money-wages will be higher in the former. We may always observe that different rates prevail in different counties of England, in different departments of France, in different States of Germany, &c.; and it would probably be found on inquiry, that the labourers in the more highly-paid districts are more efficient than the others. In 1870, for example, while the rate of daily wages in Dorsetshire was 1f. 87c., the rate in Lancashire was 3f. 12c., or about 66 per cent. higher; and this difference is no doubt due to the superior efficiency of the Lancashire labourers. The corn produced in both counties is sold at the same, or nearly the same price, for the country is now so well provided with the means of transport, that the price of corn is as nearly as possible the same in every part of it. If the Lancashire farmers who produced their corn with less labour, were yet to pay no more to their labourers, they would make higher profits; and this would induce other capitalists to set up as farmers and to offer the labourers higher wages, while they contented themselves with the usual rate of profit. A high rate of wages once established in any district

tends to perpetuate itself, since it enables the labourers to procure better diet and greater comfort generally, which increases not merely their physical strength, but their intellectual capacity also. It has often been remarked that wages are higher in a large city than in the rural districts, and this is, no doubt, because a city affords opportunities for a greater division of labour and consequent development of individual skill, which both encourages the more skilful artisans to flock thither, and improves their skill when they have settled there. Mr. Burnett, the able President of the Nine Hours' League, which was formed at Newcastle in 1871, mentioned in a letter to the "Times," that the wages of engineers were 50 per cent. higher at London than in Newcastle, being 45f. and 30f. a week respectively, and expressed himself unable to understand how the London manufacturers could compete with those of Newcastle, who not only paid lower wages to their men, but could procure coal and iron at a much smaller cost. I have been informed that the explanation is simple, and that the London firms manufacture little or nothing in London, but confine themselves to the business of repairing, which requires greater skill in the men employed, and that whenever they are required to make a machine they get it done in the country. Thus the London engineers receive higher wages because they are more skilful; but their superiority is not sufficient to counterbalance the advantages which Newcastle enjoys from its vicinity to the coal and iron mines, and the two cities cannot and do not compete on the same ground. It is frequently assumed that a country in which money-wages are low can produce commodities at a lower price than a country where they are high; but if both countries produce the same commodity for exportation, it will be found that the difference of wages corresponds to a difference in the efficiency of labour. As the price at which the products of both countries are sold is the same, the rates of wages must vary, so that the value of the commodity shall in each country be in proportion to its cost of production. Senior, accordingly, has, in the first of his "Lectures on the Cost of Obtaining Money," shown that the different rates of wages prevailing in the United States, England, and India, result from differences in the productiveness of labour in those three countries; the first of which received most silver from Mexico in return for its labour, because its labour was the most productive, and the last received least for the contrary reason. His theory, which was arrived at by a process of abstract reasoning, has recently received a most striking confirmation in some facts brought to light by Mr. T. Brassey in his pamphlet on "Trades Unions and the Cost of Labour." *

* "Trades Unions and the Cost of Labour." Speech delivered by Thomas Brassey, jun., M.P., in the House of Commons, 7th July, 1869. With additional statistical details. London: Longmans, Green, and Co., 1870.

This pamphlet has now been expanded into his well-known book on Work and Wages, which contains a remarkable amount of information, and I have great pleasure in finding that Mr. Brassey's conclusions are in perfect harmony with mine, though arrived at in a totally different way. He tells us that the experience of his father, the eminent contractor, as well as of others in the same line of business, shows that the same sum of money has to be paid to the labourers who make a given portion of a railway, as, for instance, a kilometre, in all the countries of Western Europe, as is paid in England, although the rates of wages paid in these countries agree neither with the English rate nor with one another. Even in India, where the coolies received only 45c. or 62c. a day, or not more than a fifth of the rate commonly paid in England, it was found that the construction of a railway cost as much per kilometre as in this country. Though the actual sum paid to the coolies for the same amount of work was somewhat less, yet they required so much supervision that the total expense was the same. Mr. R. Torrens, writing to the "Times" in the course of 1872, and referring to Mr. Brassey's opinion that the "Cost of Labour," or price paid for a given amount of work is the same all the world over, says that his own experience in Australia testifies to the same fact, and that though the rate of wages in South Australia was two or three times as high as in England, he found that he had not to pay more for trenching an equal space of ground in the former country than in the latter. These statements may serve to give a clear idea of the meaning of the proposition that wages vary in different countries according to the efficiency of labour. The wages of common labourers are five times as high in England as in India, because an English labourer does five times as much work in the same time as a Hindoo, when employed in work of the same kind. Thus an examination of the differences between the rates prevailing in different employments and different places confirms the general principle that the reward of labour is proportioned to its efficiency, though this reward does not always take the form of money, but may consist in public esteem or the internal satisfaction enjoyed by the labourer himself. Mr. Ruskin desires that the Government should determine each year how much each kind of labour is worth, and that the labourers should be paid accordingly; but this is the very state of things which free competition is constantly tending to bring about with as much, if not more certainty than any official regulations could possibly do.

CHAPTER IV.—PROFIT.

CAUSE OF PROFIT—RATE OF PROFIT IN DIFFERENT TRADES—PERMANENCE OF THE RATE OF PROFIT—PROFIT IN DIFFERENT COUNTRIES—SLAVERY AND COOLIE LABOUR—MONOPOLY—SOCIALISM.

By the term "profit" is commonly understood the difference between the price at which a tradesman buys his goods and that at which he sells them; but this addition is in part necessary, in order to pay the wages of those whom he employs in serving in his shop, and in conveying the goods to the customers' houses, and, even after this has been allowed for, the balance which remains in his hands after paying all the expenses of his business, and which is called his net profit, is in great part the wages which are due to him for his labour in working at, or at least superintending, his business. It is not all wages, as is shown by the fact that many persons derive an income from a business to which they contribute no labour whatever, but in which they have invested a sum of money, as is notably the case with shareholders in Joint Stock Companies. The economic problem now before us is, therefore, to discover the reason why certain persons should be able to obtain a share in the product of industry without undergoing any of the fatigue to which labourers are obliged to submit. It is only in Joint Stock Companies that the different elements of which trade profits consist are kept clearly distinct, but the same law which determines the dividends to be paid by a railway company determines also the average gains of individual farmers and bakers, though its operation is, in the latter case, somewhat obscure. Popular language speaks of a tradesman as making so much per cent. on the capital or on the money which he has invested in his business; but it is obvious that if he performs some of the labour required, part of his receipts must be considered as wages, since he would have to pay another person to perform it if he did not do it himself. If a tradesman has invested the sum of ten thousand francs in his business, and if he finds at the end of the year that he possesses fourteen thousand francs, he is said to have made a profit of four thousand francs, or forty per cent., but of this sum three thousand francs are not more than the wages which he might earn by placing his skill and industry at the disposal of another, and the remaining one thousand francs are no more than ten per cent. on his money. It is unnecessary to explain further than has been already done the causes which determine the different rates of wages prevailing in

different employments, and in the example just given it is only the ten per cent. profit which has to be explained. It is equally unnecessary to do more than mention the fact that a tradesman must add something to the price of his goods in order to cover his losses incurred in the case of goods which are spoilt or lost before he can sell them, or of those which are sold to customers who fail to pay for them. Such a compensation is necessary in order that the value of his whole stock may correspond to the amount of labour which has been expended on the whole of it. Setting aside the wages of superintendence, and what may be called insurance against risk, there remains a further sum to which alone the name of profit will be henceforth restricted, which is due to the person or persons who provide the money with which the business is conducted, and the ratio which this sum bears to the whole sum invested will be called the rate of profit. Some writers prefer to give it the name of interest, but it appears to me to be more convenient to confine the latter name to the payments made by debtors in respect of money lent to them, and the causes on which the rate of interest depends will be more particularly examined in a future chapter.

Mill considers that the existence of profit is due to the fact that human beings produce more in a given time than they consume in the same time, but though this fact renders profit possible, since, if labourers produced no more than they consumed, no one else could obtain anything at all, it is not sufficient to explain why the labourers should part with a portion of what they produce without receiving anything in exchange. Labourers might be able to produce six hectolitres of wheat in a year, while only consuming four hectolitres, but though this would enable them to save and to make some provision for old age, or sickness, it would not enable one who had accumulated a stock of corn to increase it by employing others to labour for him and obtaining his old stock back again, together with an addition. He could not give a labourer four hectolitres a year, and take the six which the latter produced, for the rate of wages depends not on the labourer's wants, but on his power of production, and a labourer who could produce six for himself would not consent to do a year's labour for the sake of four only, since this would be doing more labour when less would suffice.

Mr. Jevons suggests a more satisfactory explanation, viz.: that profit is obtained because the assistance of capital renders labour more productive. If two men engage in agriculture, or any kind of manufacture without the assistance of tools, they produce less than if one constructs some useful tools, and the other employs them; but in order that one may devote himself for a length of time to the construction of tools, it is necessary that he or some one else should save up a store of

food on which he may subsist; and, as the name of capital has been restricted to the food and other necessaries consumed by labourers, it may be said that the owners of capital are able to obtain a profit, because capital increases the productiveness of labour. They desire to obtain it, because the saving of capital implies the exercise of abstinence, as the capitalists might have exchanged it for other things for their own immediate consumption; but if they forego this enjoyment in order to produce commodities for other people, they require some compensation for the sacrifice to which they submit. The extent of the sacrifice varies according to the length of time for which it is practised, and to the amount of the capital which the owners abstain from using; and the rate of profit accordingly is said to be so much per cent. per annum. Thus, as wages owe their existence to the fact that labour is productive, and at the same time irksome, so profit is obtained because capital is productive, and, at the same time, abstinence from the enjoyment of capital is irksome. The rate of profit, like the rate of wages, varies with different individuals, and as it is not like wages, the result of a bargain, it is not easy to determine its amount, nor even to discover what is the average rate prevailing in any country, but I shall assume that it is 5 per cent., which rate I select, because, although there are many companies which realize much more than this, the shares of those which do so generally rise to a premium, thus showing that the higher rate is an exception, and not the rule. As wages had their origin in the commencement of industry, so profit began with the accumulation of capital. If we suppose that before the introduction of agriculture a man could gather 10 hectolitres of wild wheat, and that the first who sowed the grain procured 10½ hectolitres in the same space of time, it would explain why the person who saved up the 10 hectolitres, on which he subsisted while he was ploughing and sowing the ground, should receive 50 litres more than any other labourer, and if he saved enough to maintain another person for the whole year he could obtain 50 litres for himself, which would be a profit of 5 per cent. The labourer so employed would not be able to demand more than the 10 hectolitres which he could gather for himself while subsisting on wild corn alone, but if he desired to cultivate the ground he could only do so after practising the same abstinence as his employer had formerly done, and the additional quantity which he would then receive would be not wages, but profit. If it had once become usual for capitalists to receive 5 per cent. profit, then a discovery which should enable farmers, by the assistance of machinery, or in some other way, to increase the product by 20 or 25 per cent., would not raise the rate of profit, but would diminish the value of corn or of other produce. As it would be open to everyone to

make use of the discovery, the labourers would be able to save up the necessary quantity of food and obtain a larger yield, and the capitalists would be obliged to content themselves with the same rate of profit as before. Abstinence would be no more irksome than it was before, and people would still be willing to practise it for the same reward, but labour would have become more productive, and would be better rewarded. It must not, however, be supposed that the labourers alone would receive all the benefit of the improvement, and that the capitalists would gain nothing, for though the rate of profit would remain stationary, the absolute amount of corn received by the capitalists would be increased. Suppose the effect of the discovery to be that the labour of each man produces 12.6 hectolitres instead of 10.5, the rate of wages will then rise from 10 to 12 hectolitres, and the capitalist's profit will be 60 litres on a capital of 1,200, while a capital of 1,200 will be the product of no more abstinence than that of 1,000 had formerly been, since the accumulation of each has required the saving of the whole result of a year's labour. Ten hectolitres would yield 50 litres as they had done before, but to save up ten hectolitres a man would only be required to save ten months' wages instead of a whole year's wages as had before been necessary, and thus a smaller amount of privation would obtain the same reward as a larger amount had formerly done. Capitalists would, like labourers, benefit by the fall in the value of corn to the extent to which they were consumers of that article; the one would obtain the same quantity of corn with less abstinence, and the other with less labour. If any scheme were proposed by which the rate of profit would be reduced, it would of course be abandoned, since the possessors of capital would prefer to pursue the old practice, which would bring them in 5 per cent., and no one of their number would have any motive to accept a lower rate, since it would entail submitting to a greater sacrifice when a less would suffice.

Whether the rate of profit be 5 per cent. or some other rate, it must at all events be the same in all other trades as in agriculture. If a capitalist can obtain 5 per cent. by employing his capital in maintaining agricultural labourers, he will not be content with less if he employs it in any other trade. As it is not usual for an employer to provide his labourers with food directly, but, on the contrary, to pay their wages in money with which they can procure food for themselves, the money which he employs represents his capital, and the money which he receives, after paying all expenses, is his profit, and bears the same proportion to the former sum as the corn which he would receive if he himself provided the capital with which his labourers were maintained. It is impossible that any occupation which does not consist in procuring

food should become the sole business of any person, unless the capital on which he subsists has been accumulated by himself or others, and if society requires that some individuals should devote themselves to trade or manufactures for the benefit of the rest, the latter must consent to exchange the products of their industry on such terms that those who furnish the capital, or the money with which trade and manufactures are carried on, shall obtain the same rate of profit as the farmers. When an article has to pass through several hands in order to undergo several processes of manufacture, the value of the final product must be sufficient to compensate the abstinence which has been exerted by all those through whose hands it has passed, so that the cotton-planter, the cotton-spinner, the weaver, and the tradesman, for instance, may each receive fifty francs for every thousand which each has invested in his business. Of course, as a matter-of-fact, all people do not obtain the same rate of profit, nor does the same person obtain the same profit every year, but these differences arise from differences of personal character or local circumstances, but if any one trade is so situated as to hold out an expectation of more than the usual profit to persons of average abilities, this will induce more persons to enter that trade, or those who are already engaged in it to bring more capital into it; and this competition will compel the whole body of persons engaged in it to lower their prices, and by so doing to reduce their profits to the ordinary rate.

Even if the competition of the capitalists were not sufficient to do this, there is another force working to the same end. The labourers employed in the trade, seeing that their masters were obtaining higher profits, would require higher wages, and, if these were conceded, the rate of profit would be thereby reduced, while, if they were not, the employers would be obliged either to submit to the loss consequent on a strike, or to reduce their prices. A single railway company may pay 10 per cent. while most others are only paying 5 per cent., but a railway is such an expensive article, and one which requires so long to construct, that a company may obtain 10 per cent for some years before any one thinks it worth while to construct another connecting the same places. The employés of a railway company which is paying unusually high dividends cannot obtain a rise of wages by the threat of a strike, for the other companies cannot afford to give more, and the men must, therefore, content themselves with the usual wages; but if they all paid 10 per cent. they would be obliged to reduce their fares, or else so many new railways would be started as materially to interfere with the business of the old companies. Even when a company is so favourably circumstanced as to be able to pay high dividends, and the Government will not allow a competing railway to be constructed, the benefit of the high profit is only received

by the original shareholders, and the shares rise to a premium, so that those who afterwards invest in them cannot obtain much more than the usual rate of profit. The same thing happens with Joint Stock Banks, such as the London and Westminster Bank, which pay 20 per cent., but which cannot be compelled by competition to reduce their profits by giving more favourable terms to their customers.

It is, indeed, open to every one to establish a new Joint Stock Bank, but, as the chief object of a bank is to provide security for its depositors, an old-established bank has always a great advantage over its younger rivals, and it is difficult for them to draw away custom from it, but its shares rise to a premium. The business of a bank may not always admit of an increase of its capital, for its profits depend much more on the amount of its deposits than on that of its paid-up capital; and the former may increase or decrease considerably, while the latter remains stationary. The Bank of England does not pay such large dividends as the London and Westminster Bank, chiefly because the capital of the former (362,500,000f.) is much larger than the business requires, and if one third of this sum were returned to the proprietors the absolute profit might be hardly at all diminished, while the rate of profit would of course be increased. When, on the other hand, a company is unfortunate, and its dividends fall below the usual rate, the price of its shares also falls; and here again there is a tendency to uniformity in the rate of profit on all investments. Not only is it seen that different persons obtain different rates of profit, but it also seems that the rates are permanently different in different trades. Adam Smith, however, has shown that these differences are only apparent, and that the high profits said to be obtained in some trades are in reality no more than the wages of those who work at them. A country grocer, he says, makes a much higher profit than a merchant in a large town; but, if we deduct from the so-called profit of the former the sum which is due to him as a skilled labourer who is able to keep accounts and who is a competent judge of many different kinds of goods, we shall find that his profit is not greater than that of the latter. Adam Smith explains in the same way the large returns which a small sum of money will produce when invested in a publichouse, a great deal of it being a compensation to the landlord for the disagreeable nature of his business. Senior, too, says, that no class makes a higher profit in the ordinary sense of the word than the apple-women of our streets, who realise 20 per cent. per diem, or about 7,000 per cent. per annum; but, though this sounds enormous, yet, as their whole stock is hardly worth more than 6f., they do not earn more than 1f. 20c. a day, which is a very low rate of wages, and their real profit should be considered as amounting practically to

nothing. There is, of course, no tendency towards an effacement of the differences which exist between different trades in respect to the greater or less comfort enjoyed by those who superintend them, but there is a constant tendency towards the establishment of an uniform rate of profit on the investment of money in whatever mode it is effected. If publichouses, grocers' shops, and all other industrial concerns were carried on by Joint Stock Companies, it is evident that, as no one would have any inducement to invest in those which paid less than the others, an uniformity of profits would be brought about, either by the abandonment of the less successful undertakings, or by corresponding alterations in the prices of the shares. But it may be thought that as trade is at present chiefly carried on by private individuals, the amount of whose profit is scarcely known to themselves, and not at all to their neighbours, there is no reason why a high rate prevailing in any one trade should attract more capital into it. But, although the amount of a tradesman's profit is not known to his neighbours, yet, when a particular trade is more than usually profitable to those engaged in it, the fact must be obvious to these at least, and they will do their best to extend their operations, and they will take their relations or their friends into partnership, or some of them will take the opportunity of starting fresh concerns. Some of them borrow from bankers or other moneylenders, and some employ their savings in extending their business, and thus they cause more capital to be employed in maintaining the labourers who are directly engaged in the trade, or those who produce the materials or instruments which are required in it, and in one or other of these ways a larger amount of capital comes to be employed in producing the articles which bring in a more than usual profit, and the eagerness of the competing traders to take advantage of the opportunity reduces the rate of profit to its former level, either by compelling them to reduce their prices, or by inducing them to produce the articles at a greater cost, though selling them at the same price. When a trade is unfortunate, the process is reversed; those who are engaged in it contract their operations—they borrow less from bankers—they dismiss their labourers —some of the less successful abandon the trade, or they fail, or die, and their place is not occupied by others; and in one or other of these ways less capital comes to be employed directly or indirectly in producing those articles which are no longer profitable. The length of time which is required for either of these processes is of course a matter of uncertainty, but it is evident that a trade which is known to be unprofitable must decline, and that one which is known to be advantageous must flourish and extend itself; and if it cannot be said with perfect accuracy that at any one moment the rate of profit is actually the same in all

trades, it may, at least, be said that the rate is always tending to uniformity. The high dividends which are sometimes paid by mining companies do not in any way militate against the truth of this proposition, for they are quite exceptional, and the disposition of the veins of metal is so irregular, that the success of one mine says nothing for the success of another in the same district, and competition cannot reduce the profits of the most successful. The business of mining, though it affords a prospect of great success, affords also a prospect of disastrous failure ; and, if the losses are set off against the gains, it will probably be found that it is not, on the average, more profitable than other trades, and does not hold out a greater inducement to prudent capitalists to invest in it.

As the rate of profit in all other trades is the same as that which prevails in agriculture, it follows that, if the rate is always the same in that employment, it must be permanent in all other trades also, and that, if there is a general rise or fall in the rate, the variation must be manifested in agriculture. The surplus which remains in a farmer's hands after paying his labourers does not, in every case, bear the same proportion to the capital employed, but varies according to the fertility or poverty of the land. As the labourers' wages are determined by the productiveness of labour on the "margin of cultivation," which is, as previously explained, the worst land permanently cultivated, so the farmer's profit is that which is yielded on the same margin of cultivation, and the rate cannot fall below this point as long as equally good land remains for a farmer to take into cultivation. If a considerable extent of land more fertile than the worst previously cultivated should be discovered, much inferior land would be suffered to go out of cultivation, and the value of corn would fall, but the rate of profit would not rise, since nothing would have happened to make abstinence more irksome than before. If, on the other hand, cultivation could not be extended without resorting to poorer soils it would not be extended at all, and the population of the country would remain stationary. If the labour of the agricultural classes were sufficiently productive to maintain other classes besides themselves, a capitalist could obtain the same rate of profit by devoting himself to trade or manufactures as by practising agriculture, and he would have no motive to cultivate a barren soil and receive a lower profit, when he could obtain the usual rate by setting up as a builder or a tailor. If the community were wholly agricultural there would, in like manner, be no motive to cultivate land which would not yield the ordinary profit, so that in either case the rate would remain stationary. In this latter case, indeed, if some capital were produced which was not required for the purpose of maintaining the labourers already employed in agriculture, the fact would be a

sufficient cause for the establishment of a manufacture, and the community would cease to be purely agricultural. Suppose, for instance, the ordinary rate of wages was 40 hectolitres of wheat per annum for each man, and the profit of the capitalist amounted to 2 hectolitres for each man employed, and some improvement in agriculture should increase the capital of the country by 4,000 hectolitres, but that the country did not contain any unoccupied land on which the labour of 100 men could produce 4,200 hectolitres. In such a case it would obviously be the interest of the possessors of this capital to employ the people whom it would maintain in producing furniture, or clothing, or some other thing to be exchanged with the farmers for their corn, and if they employed their capital in this way they could exchange their goods, which would be the product of the labour of 100 men, for as much corn as 100 men had produced, and their rate of profit would be the same as that of the farmers. The latter would be obliged to consent to these terms, for if they did not they would have to withdraw a portion of their capital from agriculture, and employ some men in producing clothing or other articles for their own use, and would thus lose the profit which they formerly received on that portion of their capital, while they would leave some land unoccupied which would be taken by the capitalists who were seeking for an investment, and who would obtain the same rate of profit as the farmers had formerly done. Thus it would be the interest of both parties to exchange their goods on such terms that both could obtain the same rate of profit. Agricultural profit cannot fall unless recourse is had to poorer land, but such land will never be cultivated, since capitalists can never be willing to submit to a fall of profit; and the very meaning of the expression that some land is not worth cultivating, is, that it will not yield the ordinary profit to the farmer who should attempt to reclaim it. It appears, then, that the rate of profit is stationary in agriculture, and, consequently, in all other trades; and that whatever rate be established in an early stage of society, it must remain the same throughout its subsequent development. This theory, however, is in opposition to the unanimous opinion of all other Political Economists, who maintain that there is a constant fall of profit as society advances; and the reasons which have induced them to adopt this conclusion must now be examined. The principal of these appears to be the fact that there is a constant tendency to a fall in the rate of interest on loans, which they consider as a sufficient proof that the rate of profit falls likewise, because they think that no one will pay more for the use of money than he can make by employing it on his own account, and that, therefore, the rate of interest and the rate of profit must be exactly or nearly identical. Babbage goes so far as to

say that we can always ascertain the rate of profit in England by reference to the price of Consols; so that when, for instance, Consols are at par, the rate of profit is 3 per cent., and when they are at 75, the rate of profit is 4 per cent., &c. That eminent philosopher, the late Mr. Buckle, has assumed, as a matter not admitting of question, that the rate of interest affords a measure of the rate of profit, and that profit was high in India in ancient times because interest ranged from 15 to 60 per cent. He says: "Inasmuch as the wealth of a country can only be divided into wages, rent, profit, and interest, and inasmuch as *interest is on an average an exact measure of profits*, it follows that, if among any people rent and interest are both high, wages must be low." *

In a note to the words which I have italicised, Buckle admits that the rate of interest is affected by the degree of security which a society enjoys, but he does not seem inclined to attach much importance to this fact. In a country where the creditor has but a small chance of recovering his property, either in consequence of the general dishonesty of the people, or of the insecurity of property produced by a bad or a weak government, he must require a higher rate of interest in order to compensate for the risk which he runs of losing his property altogether; but it does not follow that either money-lenders or other persons obtain larger net profits than they would in a country in which credit was more stable. As society advances, the authority of law is ever becoming stronger, and more efficient protection is afforded to the creditor; and the benefits which honesty confers upon commerce being more and more recognised, people become by degrees more willing to lend their money to others, and, as they believe themselves to incur, and actually do incur, less risk of losing it, they are content with a lower rate of interest. In those cases, indeed, in which the borrower has no security to offer, the rates are still, and will always remain, enormous; and it is said that the impostor who a few years ago laid claim to the Tichborne estate promised to pay interest at the rate of 300 per cent. on the money which he borrowed for the purpose of carrying on the lawsuit, which, of course, could only have been paid if the suit had been decided in his favour. The general security of property tends also to reduce the rate of interest in another and more important way, by giving rise to the institution of banking. While people have but little confidence in one another, no one will deposit his spare cash in the custody of another unless he receives interest for it, but when they have learnt that their cash may be deposited with as much, and even more, security in the hands of a person whose

* History of Civilization in England. New Edition: Longmans, 1867. Vol. I., p. 74.

special business it is to take charge of it as in their own houses, a class of bankers arises to perform this function, and it is found to be most convenient that the same class should undertake, in addition, the business of lending money. As those who deposit their money with a banker do not all require it back again at the same time, he is able to lend a larger or smaller portion of it to others, and, provided that he is always able to meet the demands of his depositors, the latter have no reason to complain, since they do not require him to return the identical coins which they entrusted to him, but only an equivalent sum ; and the profit which he makes by lending it out, enables him, in many instances, to take care of his depositors' money without making any charge for his trouble. Here an important consequence follows : that while in a primitive society the money-lender carries on his business with his own money, in a more advanced society he lends the money of other people ; and while in the former case he must charge a high rate of interest in order to obtain, not merely the ordinary rate of profit on his own money, but a sufficient compensation for the labour which he or others have to undergo, and an indemnity against any risk of loss, in the latter he has a much larger fund out of which to obtain his wages of superintendence and his profit on the smaller sum which really belongs to him. Thus, when a money-lender has only his own money to lend, he cannot be content with 5 per cent. interest, for this would be tantamount to labouring and submitting to risk without compensation ; and, if his stock be small, and the trouble of collecting his debts, or the risk of loss be considerable, interest at the rate of 50 or 60 per cent. per annum may not leave him a clear profit of more than 5 per cent. As a country grocer makes a greater addition to the cost-price of his goods than a merchant in a large city, because he has a smaller stock by the sale of which he has to procure his own wages and those of the people whom he employs, so a small money-lender charges a higher rate of interest than a banker who has a large amount of money deposited in his keeping. If a money-lender, possessing 100,000f., lends it out at 40 per cent., he will receive 40,000f. a year, but 10,000f. may be set aside for occasional losses, and the expenses of carrying on his business may well amount to 25,000f., and thus the net profit may be no more than 5,000f., or 5 per cent. A bank, on the other hand, whose paid-up capital amounts to 10,000,000f., may hold deposits to the amount of 40,000,000f., and by lending out the whole at the rate of 5 per cent., may obtain 2,500,000f. ; and even if the expenses, including the salaries of the directors, the manager, and all other persons employed, should amount to 2,000,000f., it will still be able to pay a dividend of 5 per cent. As, therefore, the tendency to a fall in the rate of interest may be accounted for without supposing any tendency

towards a fall of profit, it cannot be taken as a sufficient proof of the existence of the latter.

Hume, however, has collected some evidence which goes directly to show that the rate of profit was higher in ancient Greece than in modern England, which I give in his own words:—"We read in Lysias (Orat. 33, Advers. Diagit) of 100 per cent. profit made on a cargo of 2 talents sent to no greater distance than from Athens to the Adriatic; nor is this mentioned as an instance of extraordinary profit. Antidorus says Demosthenes (Contra Aphob., p. 25, ex Edit Aldi) paid 3½ talents for a house which he let for a talent a year, and the orator blames his own tutors for not employing his money to like advantage. My fortune, says he, in eleven years minority ought to have been tripled. The value of 20 of the slaves left by his father he computes at 40 minæ, and the yearly profit of their labour at 12."* But these facts, though they would go far to confirm a theory otherwise established, are hardly sufficient to prove that the rate of profit was higher in ancient Greece than it is at the present time. The fact that a trader made a profit of 100 per cent. by sending a cargo of the value of 2 talents from Athens to the Adriatic does not tell us what was the usual net profit received by traders at that time. Short as the voyage may now appear, it may then have been a very expensive one, and there must have been a considerable risk of piracy and shipwreck, and the annual profit of the merchant may have been no more than 5 per cent. Even now, the booksellers of London sometimes sell a book for twice as much as it has cost them, and twenty years ago they usually sold books at a price 33 per cent. higher than that at which they bought them; and though they now allow a much smaller margin of profit, it by no means follows, and is, indeed, highly improbable, that the general rate of profit in that trade is now lower than formerly. The fact that Demosthenes obtained a rent of one talent a year for a house which had only cost him 3½ talents, is not in itself sufficient to prove a high rate of profit, for it may have been an unusually lucky speculation. Nor can the statement of Demosthenes that his property ought to have been tripled in eleven years claim our implicit confidence, for persons who think that they have a grievance are very apt to put in exorbitant claims, and the owners of some of the whale-ships which were destroyed by Confederate cruisers put in claims for damages in which they reckoned their profit at the almost fabulous rate of 350 per cent. per annum. Demosthenes estimated at 12 minæ the annual profit which he could derive from the labour of slaves worth 40 minæ, and this is equivalent to 30 per cent, but as they

* Essay on the Populousness of Ancient Nations.

were employed as sword-cutlers and cabinetmakers, the price of the materials and instruments employed should be also taken into consideration, and, if these had been given, the rate of profit would probably appear much lower. But even if these facts were sufficient to prove that the rate of profit was higher in ancient India and Greece than in modern England, they would not prove that in the same country profit is lower at a later, than at an earlier period of its history. Buckle states that the same rates of interest which are mentioned in the Institutes of Menu prevailed in India in 1810, and his object was not to prove that the rate of profit had fallen, but that it had always been high, and though Hume considered that a high rate of profit proved a society to be in its infancy, yet he gives no figures relative to the rate prevailing in Greece at any period subequent to the age of Demosthenes.

Some theories have been propounded to establish the downward tendency of profit, though rather to account for a fact which is taken for granted than to prove by independent reasoning that such a tendency must exist. Adam Smith supposes that the increase of the capital of a country diminishes the rate of profit by increasing the competition of the capitalists with one another, because when profits are unusually high in one trade more capital is attracted to it and they are soon reduced to the ordinary level, he therefore supposes that an increase of capital in all trades must reduce profits in all. But there is here an obvious fallacy, for the fact that capitalists are content with 5 per cent. is sufficient to prevent a higher rate from prevailing in any one trade, but cannot explain its reduction to 4 per cent. There is no apparent reason why the possessors of the additional capital should not be able to obtain as high profits as other capitalists had previously done, and to suppose that they would be content with less than they could get, is to suppose that they would not desire to obtain as much wealth as possible with as little abstinence as possible. If an article can be profitably produced at the price of 5f., no one will be able to charge more for it, but competition will not reduce the price below 5f., and the same rule applies to the rate of profit. No one can obtain more than the usual rate, because there are many others who are content with it, but to say that competition reduces the rate is merely to say that the rate is reduced without explaining the motives which induce the whole body of capitalists to submit to the reduction. Ricardo's theory, though it is more ingenious, and has been more generally accepted than that of Adam Smith, is yet open to the same objection. His theory of wages, as before mentioned, is, that they must be sufficient to give the labourer a certain quantity of food and other necessaries, and that if, therefore, the cost of food increases, wages must also rise. His theory of profit is, that it is,

so to speak, the complement of wages, *i.e.*, that the two together make up the total product of industry, and that as the one rises the other falls. Rent being for the present left out of account, it is, of course, perfectly true that the whole product is divided between the capitalist and the labourer, and that if one of them receives a larger share, the other receives a smaller; but, though it is perfectly true, it throws no light on the matter. Whether the labourer's share be called wages, as it is by Ricardo, or "cost of labour," as it is by Mill, the statement that the share of the capitalist diminishes because the labourer's share increases, is merely a statement that profit falls because it falls. If the total product be represented by the number 100, then the statement that the cost of labour is equal to 90 is identical with the statement that profit is equal to 10, and can in no way explain the latter fact, any more than the statement that it is three-quarters past two o'clock can explain the fact that it is a quarter to three, or the statement that Paris is to the south of London can explain the fact that London is to the north of Paris. If the cost of labour rises from 90 to 95, profit falls from 5 to 10, but it would be quite as reasonable to say that the cost of labour had risen because profit had fallen as to make the converse statement, and the statement that the labourer receives a larger share implies that the capitalist receives a smaller one. The unsatisfactory character of Ricardo's theory has already been pointed out by Mr. Jevons in the work before referred to. (Chap. 8, sec. 2). Such, however, being his theory, he sought to establish a fall of profit by showing that food had a tendency to become dearer as society advanced, and that the wages of the labourer increased so as to enable him to procure the same quantity of it, and had this been proved it would undoubtedly have demonstrated that the rate of profit must fall as society advances. Unfortunately, however, these facts, which would require very strong evidence to prove them, were, by Ricardo, taken for granted, and we are simply told, as if it were a well known fact, that food tends to become dearer as society advances. It is quite true that if people were to resort to poorer soils than those previously cultivated, although no improvement in agriculture had taken place, the cost of procuring food would, as Ricardo contends, be increased, but he was bound to explain the motive which could induce men to cultivate these poorer soils. He assigns the increase of population as the cause, but such an increase cannot precede, but can only follow, an increase of food. Be the population of the country what it may, it must have sufficient food before the fresh land is taken into cultivation, and if there be an additional supply which is not wanted to support any persons already engaged in agriculture, it may either be used to maintain those who are to reclaim the new land, or to maintain

others in some non-agricultural employment. But if all the waste land be inferior to any yet cultivated, it will obviously be more desirable to employ this capital in trade or manufactures, and for the labourers to exchange their products or their services for the corn of the farmers. By doing so they can obtain as much corn (say 40 hectolitres of wheat a year) as the farmers produce on the old land, while by cultivating the waste land they would obtain a smaller quantity (say 36 hectolitres), and as everyone desires to obtain wealth by the least possible labour, the former course would be preferred. In order to explain why the latter course should be adopted, it is necessary to show why people should desire to procure dear food when cheap food can be had, but if we are to suppose that capitalists would consent to give up a portion of their own profits in order that the labourers whom they employ in reclaiming the waste land may receive as much, or nearly as much, corn as those employed on better land, it becomes still more difficult to account for their conduct. The waste land cannot be reclaimed without the concurrence of capitalists, and, as they would be able to obtain the same rate of profit as the farmers had previously done if they would employ their capital in some kind of manufacture, to suppose that they would submit to a lower rate is to suppose that they would not desire to obtain wealth by the least possible sacrifice. Ricardo says that the increase of population would compel them to reclaim the waste land, but this increase cannot take place until after the land has been reclaimed, and, if we are to suppose that Ricardo, and those who follow him, really mean that it must be done in order that an increase of population may take place afterwards, there still remains the difficulty of explaining the motive which can induce the capitalists to take this course. It cannot be a desire to increase their own families, for, by the supposition, they would receive less than if they engaged in manufactures, and it can hardly be supposed that they would submit to a loss in order to enable other people to increase their families. It cannot be that there is no field for the employment of capital in other than agricultural industry, for, as Ricardo himself maintains, there is no limit to the desires of mankind to possess the comforts and luxuries of life. As, therefore, no motive is assigned which could induce the whole class of capitalists to submit to a reduction in the rate of profit, Ricardo's theory, like that of Adam Smith, fails to establish the fact. Although it is true that as a country advances much waste land is reclaimed which was formerly thought too poor to cultivate, yet this is owing to the improvements which are constantly taking place in agriculture, by which people are enabled to cultivate it at a smaller expense than would previously have been necessary, and the increase of population is the effect, and not the cause.

Cherbuliez, on the other hand, ascribes the fall of profit to the increased productiveness of industry, instead of its diminished productiveness as Ricardo has done. He has explained his theory in the chapter on profit in his work before referred to, and also in the "Journal des Economistes," for July, 1856, in both of which places he has availed himself of the same hypothesis to illustrate his theory. He supposes that there is a small and isolated colony of farmers, who obtain the wood which they require from five capitalists, whom he names B, C, D, F, and G, and that the amounts of capital possessed by each are in the proportion of 10, 20, 30, 40, and 50 respectively, and that the whole is employed in maintaining the labourers who cut down the wood and carry it to the farmers. He supposes that B cannot live unless he receives a profit of 1 on his capital of 10, which is equivalent to 10 per cent., and that he is able to obtain it because without the use of his capital the required quantity of wood could not be obtained, and that the others obtained 2, 3, 4, and 5 respectively, so that they receive the same rate of profit as B does. Next, he supposes that D, F, and G adopt some improvement which enables them to reduce the cost of wood, but that neither the capital of B nor that of C is sufficiently large to enable these latter to adopt the new method of production. Under these circumstances B and C, of course, abandon the business of wood cutting; but Cherbuliez contends that D, F, and G will have to submit to a fall of profit, perhaps from 10 to 5 per cent. B and C will lend their capital to the other three, and as that of D is now the smallest employed in the business, the rate of profit cannot be less than will enable him to live, but if he receives only 5 per cent. on his capital of 30, he will get $1\frac{1}{2}$, which is more than B had before, while F and G get 2 and $2\frac{1}{2}$ on their 40 and 50, and B and C receive interest equal to $\frac{1}{2}$ and 1 respectively on what they lend to the others, and thus each receives 5 per cent. Thus the discovery of new machines and of better means of enforcing the division of labour tends to bring about a more general accumulation of a large amount of capital in the same hand, and this tends to reduce the rate of profit.* There is, however, the same objection to this theory as to those of Adam Smith and Ricardo, viz.: that it does not tell us why the capitalists should submit to a reduction of their profits. An invention is hit upon which cannot be utilized unless a large mass of capital is held by one individual, and this would explain why a class of large capitalists should supplant the small ones, but the same fact would enable them to obtain the same rate of profit as heretofore, since their assistance is necessary to supply the farmers with wood. D, indeed,

* See Science Economique, Vol. I, pp. 471-2.

may be supposed capable of living on a profit of 5 per cent., but this is no reason why he should not take 10 if he could get it, and he could do so by simply declining to adopt the new process and continuing to procure wood in the old way. The same motive would equally deter F and G from adopting the new process, and B and C from abandoning the old one, but, even if D, F, and G should adopt the new one, this would be no reason for submitting to a lower rate of profit. Cherbuliez contends that they would do so in order to dispose of their increased produce by reducing its price, but if they reduce it in proportion to the reduction in the quantity of labour required to produce it, they will obtain the same profit as before, and to say that they will submit to a reduction of their profits in order that they may sell their wood cheap, is to assume that they will rather employ their capital in procuring wood than in any other way. Under the circumstances supposed, it would be the interest of the capitalists to produce some other article for which the farmers would give a better price than for wood, or else to become farmers, and supply themselves with the food which they themselves require—a course which would induce the farmers to exchange their corn for wood on such terms that both they and the wood-cutters could obtain the same rate of profit. Cherbuliez's theory, therefore, does not prove a fall of profit, but merely assumes that it does take place, and the real point where explanation is required is passed over in silence. It may be thought, and it has been held, that as society advances people become more willing to submit to low profits, because they are more anxious to save, and feel more security that they will be allowed to enjoy the fruits of their savings; but though the greater security which a civilized society enjoys has a greater effect in encouraging people to lend money on interest, it does not follow that those who employ their own money in their own business are content with a lower rate of profit than the people of a barbarous country. A good and stable Government may secure some of its citizens from severe losses to which they might be otherwise exposed, and this probably makes up for any enormous gains to which an insecure state of society may give occasion. The desire of accumulation does not prompt men to accept a small gain when a large one is attainable, and I have endeavoured to show that whatever the quantity of food in the country, it can always be employed in maintaining labourers without any diminution of the rate of profit becoming necessary.

As different countries are in different stages of civilization, those who hold that the rate of profit falls as society advances, naturally hold that different rates prevail in different countries at the present time; and, as I do not admit the correctness of the former proposition, I am naturally

led to doubt the correctness of the latter. The question, however, is not like the preceding, a theoretic one, which can be settled by an appeal to Economic Principles, but is one of fact, which can only be thoroughly settled either by the testimony of the commercial men of all countries, or by a large collection of statistics showing the average dividends paid by Joint Stock Companies in all parts of the world. Not having sufficient material of this nature to settle the question, I can only express with diffidence the opinion that the rate of profit is the same in all countries, and endeavour to show that there is not sufficient evidence to justify the contrary opinion. As there are many countries whose inhabitants are ever willing to embark their money in foreign investments, there must be a general tendency to uniformity in the rate of profit throughout the world, since money will be sent from a country where the rate is low to one where it is high ; and the foreigners, by selling their goods at a lower price than the natives, will compel them to reduce their prices, and, consequently, their profits. Other Economists, however, while admitting the existence of this tendency, maintain that it is to a great extent neutralized by the various political and social inconveniences attending foreign investments, and that a certain margin may and does exist between the rates prevailing in different countries, and that competition tends not to obliterate, but to preserve, this difference. The rate, for instance, may be 5 per cent. in one country, and 10 per cent. in another, without competition reducing them to uniformity; but should the rate in one country show a tendency to fall below 5 per cent., a great deal of capital will be sent to the other to be invested at 10 per cent., and thus the difference of 5 per cent., which is supposed to compensate the disadvantages of foreign investment, will be maintained. To this argument there is, of course, no theoretic objection, and it is quite possible that the power of competition may be thus limited, but there is one trade in which competition must reduce to the same level the profits of all those who engage in it, to whatever country they may belong. This is the business of conveying goods by sea from one country to another, and if the commerce between France and England, for example, be carried on by both French and English merchants, both classes must charge substantially the same rates of freight, and, as their expenses must be the same, they must make the same average net profit. The freight must be the same, for if English shipowners should charge more than the French, the latter alone would be employed in carrying goods from England to France, or from France to England, and the expenses must be the same, because if England produces better ships than France, it will be called on to supply all that are required, and if the sailors of France are found to be superior to those of England, French sailors alone will be

employed in English ships, or their wages will be proportionably raised above those of the English. The rate of profit being the same with the shipowners of both countries, it must be the same in all other trades, since shipowners can obtain neither more nor less than other capitalists; and the only way in which this tendency to uniformity can be neutralized is through the competition of the foreigner completely driving the natives out of the shipping trade. In a country, if such there be, which has none of its own citizens engaged in foreign trade, there is perhaps no means of reducing the rate to the same level as in other countries. The chief reason which has induced Economists to believe that different rates of profit prevail in different countries is the fact that the rates of interest vary considerably. Thus, Mr. Fawcett, referring to Australia, says, "Wages are far higher there than in England, and profits are also higher. This is abundantly verified by the fact that the current rate of interest is far in excess of that which prevails in our own country."* The common opinion that the rate of profit is unusually low in Holland, seems, in like manner, to be founded on the fact that the rate of interest in that country is extremely low. I have already endeavoured to show that interest is not a correct measure of profit, and the fact that it is low in Holland may be accounted for by the greater confidence which the Dutch repose in their banking institutions, which renders them more willing to trust their money to them, and less liable to be seized with a panic. But this will not explain why the Dutch Government should be able, as it is, to raise a permanent loan, the investors in which receive no more than 2 per cent. on their money, but even this is not sufficient to prove that profit is lower in Holland than in England, where money invested in the Public Funds yields more than 3 per cent. The class of persons who invest in public securities are a different class from those who employ their money in business, and there may be a great difference between the ratios which the sums received by the two classes bear to the money invested. It is well-known that the rate at which a Government can borrow money, is largely influenced by the amount of the loan and the frequency of its appeals to the money market; and Ricardo, who was himself a Stock Broker, tells us, (chap 21), that before the war of American Independence, the English Government borrowed at 3 per cent., but that during the last war with France, it had to pay more than 6 per cent., and that, therefore, the rate of interest affords a very unsafe criterion of the rate of profit. If the Dutch Government were now to raise a large loan, say of three milliards, it would probably have to pay more than 3 per cent., while, if

* Manual of Political Economy, 1863. B. II. Chap. V. P. 189.

our Government were to pay off half of our National Debt, it might reduce the interest on the remainder to 2 per cent. The class of persons who desire to invest in the funds is, in proportion to the sum which the Government is willing to borrow, larger in Holland than in England; and the Dutch are therefore obliged to content themselves with a lower rate of interest.

Holland is the only country in which it has been generally supposed that the rate of profit is lower than in England; but it is commonly supposed to be higher in the United States, and an examination of the arguments on which this opinion is based will serve to decide the question whether it is higher in any other part of the world than in England. Here again, as in the case of Holland, the rate of interest is taken as the criterion of profit, and because the former ranges from 8 per cent. in New York to 18 per cent. in California, and 36 per cent. in the Southern States, it is assumed that the latter must also be very high. Before discussing the case of America, it will be useful to refer to some phenomena which are exhibited in France, and which may serve to throw some light on the general connection between interest and profit. It is not generally maintained that profit is higher in France than in England, and a proof that the same rate prevails in both countries is afforded by the fact that, in both of them, land is sold at such a price that the investment yields about 3 per cent. per annum, and as this mode of investment is considered to be the most secure of all, the rate of profit on other and less secure investments must be the same also. Yet, Mr. Newmarch,* who mentions this fact, states also, that while in England the rate of interest on mortgages is not generally more than 4 per cent., the average in France ranges as high as 7 per cent., and in some cases rises to 10, or even 12 per cent. He furnishes us with the explanation of this apparent anomaly, telling us that a great number of these loans are raised by poor men, who are both owners and cultivators of the soil, and frequently amount to less than 250f. It is evident that it must be much more expensive to collect the interest on a hundred small debts than on one large one which is equal to the whole of them; and we need not wonder that the French money-lenders charge a higher rate than is done in England, where mortgages are generally for large amounts. When, moreover, the small amount of each loan is taken into account (one-fourth of the whole territorial debt of France, consisting in 1841 of advances of not more than 1,000f. each), it is easy to see how the French farmers are able to pay interest at a rate which seems so much out of proportion to the profits of their business. Their income

* Tooke's History of Prices. Vol. VI., pp. 92, 96.

includes not only the rent of their land, but the profit on their capital, and the wages of their labour; and the interest which they have to pay bears a very small proportion to their income, while a small sum may be absolutely necessary to enable them to keep their farms in proper cultivation, and the want of it might expose them to very serious loss. The net profit on their whole capital may be no more than 5 per cent., but a small loan may enable them to utilize a portion of their land and of their spare time, which would not otherwise be profitably employed; and the whole gain which it would bring them may well amount to 100 per cent. on the loan, from which interest at 10 or 12 per cent. would be a trifling deduction. If we now apply these principles to the case of America, we shall see that the prevalence of a high rate of interest by no means proves a high rate of profit. The fact that the rate of discount ranges at from 8 to 10 per cent. in the city of New York, shows rather the unwillingness of the owners of money to entrust it to the keeping of bankers than the prevalence of an unusually high rate of profit in commercial enterprise. I have been informed that traders in New York do not so frequently appeal for assistance to bankers, and that they have not so much confidence in one another as is the case in this country; and if this be so, the borrowers being more in want of money are willing to give more for it, and the lenders having less confidence that they will be repaid, charge more to compensate for the risk which they incur. Mr. Somers states* that in the Southern States the planters borrow money at rates varying from 15 to 24 per cent. per annum, on the security of their cotton, and this may be thought to indicate a high rate of profit; but his account does not represent them as making large fortunes, but on the contrary, as contriving with great difficulty to keep their heads above water. At the period of the cotton harvest, they have great difficulty in obtaining the necessary number of labourers to gather it in, and it is easy to see how a small sum advanced at this period may save them from a serious loss. An advance of 10,000f. may enable a planter to get in a crop which is worth 100,000f.; and if he has to pay as much as 2,400f. for it, he will still be a considerable gainer, though the profit on his whole capital may not amount to more than 5,000f. per annum. But even this is putting the case too strongly, for the rate of 24 per cent. per annum is made up by multiplying by twelve the rate of 2 per cent. per month, and though Mr. Somers does not mention the fact, it seems probable that the loans are frequently paid back within a few months, so that the loss to the planter in the case supposed above may be reduced to 600f., or even 400f. In California, too, the rate of 18 per cent. per

* Southern States since the War, pp. 45-79.

annum means 1½ per cent. per month, and soon after the gold discoveries, interest was sometimes calculated by the week; and in India the ryots pay, or used to pay, 3, 4, and 5 per cent. per month. As it must be most convenient to a farmer to pay off his debts soon after the harvest, there is no reason why it should be more disagreeable to him to pay 5 per cent. on a loan incurred a month before than on one incurred a year before that time, and it is only by a fiction that the one rate is represented as being twelve times as high as the other. If, indeed, the farmer cannot soon repay the loan, he will be sooner ruined in a country where interest is high, and it is said that the ryots who once begin to borrow money wherewith to buy seed, never get out of the hands of the money-lenders until they are completely ruined. In fact, however, the interest which a capitalist has to pay for occasional loans should be considered, not as a measure of his profit, but as a part of his expenses; and, whatever be the rate which he has to pay, it has no effect on the rate of the net profit which remains over after all such losses have been deducted. The Federal Government borrows money at about the same rate as the French Government, viz., rather under 5 per cent., and though the English Government can now borrow a small sum at 3, or even 2½ per cent., it had to pay 6 per cent. during the last war with France; and would probably have to do so again, if obliged to raise a fresh loan equal to that raised by the United States during the Civil War. It may be thought that the rapid increase of capital in the United States betokens a high rate of profit, which enables the people to lay by more than the English can do; but a little consideration will show that this does not establish the fact. Labour is extremely productive in raising food in that country, but the appetite of the labourers is not thereby increased, and the cheapness of food renders it more easy for labourers and capitalists to save a portion of their earnings. A labourer who in England produces, and therefore earns, the equivalent of 30 hectolitres of wheat in a year, can in America produce 90 in the same time, and can, therefore, either maintain a larger family, or save a greater portion of his earnings; and the abundance of unoccupied fertile land enables the people to produce a constantly-increasing quantity of food, which, in its turn, causes a rapid increase of population. As both the number of the labourers and the amount of capital necessary to maintain them, increase rapidly, no further explanation of the great prosperity of the United States is required. It must not be supposed that capitalists derive no benefit from the fertility of the soil because the rate of profit is not higher than elsewhere, for, as I have said before, the capitalists benefit as consumers, and it is only as such that the labourers benefit by the cheapness of food, and an American capitalist who has saved up the

product of twenty years' labour, even if he cannot obtain more profit upon it than is equivalent to one year's labour, can, nevertheless, obtain more of the necessaries of life for his annual profit than an Englishman can do who has practised the same amount of abstinence, *i.e.*, has saved up what in England is equivalent to twenty years' wages.

For direct evidence on the point, whether profit is really higher in the United States than in England, I have but little to offer, but there is so much English money invested in railway and other companies in the former country, that it would seem that there must be a constant tendency to bring the two to the same level. One proof that this has been already brought about is furnished by the great number of American ships engaged in the carrying trade, in which they have to compete with the ships of England and other nations, and the merchants engaged in which must, therefore, accept the same rate of profit, on pain of losing their business if they attempted to make more than the usual rate. When De Tocqueville wrote his "Democracy in America," the Americans engrossed most of the carrying trade of the Mediterranean, and, although the supremacy has since passed to the Greeks, and from them to the English, the change can hardly be attributed to the high rate of profit which the Americans require, since the opinion that the rate was high was quite as common when De Tocqueville wrote as at the present time. Mr. Thornton ascribes the success of the Greeks to the system of co-operation which is pursued in their ships; and their recent decline is the consequence of the obstacles which the Greek Government places in the way of the use of iron for ship-building purposes, from which obstacles English ship-owners are, of course, free. The Americans do, indeed, complain of the decline of their commerce, and ascribe it to the lower rate of profit with which Englishmen are content; but as the American Government imposes a heavy tax on the construction and repair of ships in its ports, and even on the first entry of a ship purchased by an American into one of their ports, we need not look further for an explanation of the fact that the commerce between England and America is carried on chiefly in English vessels. With respect to another business, that of banking, Mr. Newmarch has furnished us with a valuable table showing the actual amount of profit realized during a long series of years by the whole of the banks in the United States, and the ratio which it bore to their paid-up capital.* From this table it appears that the average rate of profit during the twenty-three years, 1834-1856 inclusive, was 13½ per cent. I am not acquainted with any equally comprehensive table of the profits of English Joint Stock Banks, but the

* Tooke's History of Prices, vol. VI., p. 748.

following passage from Lombard-street, in which Mr. Bagehot gives the result of a comparison of the published returns of 110 English banks for the year 1867, throws some light on the subject :—"The result of these banks, as regards the dividends they pay, is—

	No. of Companies.	Capital.
Above 20 per cent.	15	£5,302,767
Between 15 and 20 per cent.	20	5,439,439
„ 10 and 15 „	36	14,056,950
„ 5 and 10 „	36	14,182,379
Under 5 per cent.....	3	1,350,000
	110	£40,331,535

"That is to say, above 25 per cent. of the capital employed in these banks pays over 15 per cent., and 62½ per cent. of the capital pays more than 10 per cent. So striking a result is not to be shown in any other Joint Stock trade." (P. 246). These figures relate only to a single year, but it was not a remarkably favourable one for banking operations, and, if they do not show that the profits of banking are as high in England as in America, they, at least, show that the difference is very slight when compared with the difference between the rates of interest prevailing in the two countries. The experience of India and Australia shows, in like manner, that high rates of interest do not yield proportionately high dividends to the banks which profit by them. Taking all the evidence into consideration, I am inclined to think that it is not sufficient to prove that different rates of profit prevail in different countries, since the differences in the rates of interest may be otherwise accounted for, and the competition of different nations in maritime commerce, in railway construction, and in banking, is always tending to produce uniformity in those trades, and, consequently, in all others.

In considering the subject of profit, I have hitherto assumed that the labourers are free agents, who will not work unless the wages which they receive are equivalent to what they can produce, and that the possibility of their demanding higher wages is one of the circumstances which influences a capitalist in restricting himself to the usual rate of profit. There are, however, some cases in which this condition is not fulfilled, and where the labourer is compelled to work against his will, and to content himself with such remuneration as the capitalist may choose to give him, and it remains to examine whether in such a case higher profits may be obtained than under the régime of freedom. The most

marked instance of the kind is that in which the labourers are slaves, when the quantity of food, &c. which they receive is simply such as will enable them to do their work, and has no necessary connection with the amount of goods which they produce. In such a case it might be thought that a capitalist could obtain higher profits for himself by giving his slaves less than free labourers would receive, and in some cases this may be so ; but, as a rule, it is found that the labour of the slave is so much less efficient than that of the freeman, that the diminution of the product neutralises the advantages of the diminution of the expense. There are several reasons why slave labour should be very inefficient: it is given reluctantly, and therefore requires much supervision, and, as the slave gains nothing by exhibiting greater skill, it is his interest to conceal any skill he may possess ; and so much trouble is required in teaching him a new process, that the slave-owner finds it most convenient to employ the same men at the same work for the whole of their lives, even in circumstances where the state of the market renders it scarcely profitable. Tobacco, for instance, was grown in Virginia for a hundred years without intermission, although it often happened that there was no sufficient market for it, and although the constant raising of the same crop destroyed the fertility of the soil. It is generally found that when free and slave labour compete in the same industry, the former has a great advantage, and is able to beat the latter out of the field ; but this is not always the case ; and the circumstances which enabled slavery to hold its ground for more than two centuries in the Southern States of the American Union are, in an economic point of view, extremely instructive. The climate and soil of those States are favourable to the cultivation of tobacco, cotton, rice, and the sugar-cane, and, in the case of each of these plants, a large number of men can work together within a small space, and under the eye of a single overseer, which cannot be done in the case of cereals, and thus the expense of superintendence is minimised.* It is only, therefore, where these plants can be grown that slavery ever throve in the United States ; and even there it would soon have worked itself out by the gradual exhaustion of the soil had there not been such a vast extent of fertile unoccupied land for the planters to resort to when the old land was exhausted. It is well known that the desire of the Southern planters to obtain a larger area for the extension of slavery in the West, was the cause which led to the civil war which resulted in the abolition of slavery.

But even if articles could be produced at a cheaper rate by slaves

* See Cairnes' Slave Power, 1863.

than by free labourers, this would not raise the rate of profit, but would rather lower the price of the goods, since the capitalists would still compete with one another, and would still be obliged to content themselves with the same rate as was obtained by those who employed free labourers; for it is scarcely possible that a society should exist in which there should be no free labourers, and those who employed slaves could not, on that account, charge higher terms for their services. Now that slavery has almost disappeared from the civilised world, another system is springing up which exhibits some of the same evils, though in a more mitigated form. The planters, who are no longer able to buy and sell slaves, wish, nevertheless, to prevent their labourers from bargaining with them on equal terms and from leaving the service of a master who ill-treats them, and they accordingly enter into a contract with labourers in a distant country to work for a fixed rate of wages for five years, or some other long period. This system has been pursued in many colonies, British and other, but it is in Demerara and Queensland that the abuses connected with it have attracted most attention of late years. In Demerara they are subjected to great hardships, being forced to labour for 16 or 20 hours in succession, and find practically no redress from the magistrates, who naturally sympathise with the planters. The question, however, which is to be discussed here, is, whether the system tends to raise the rate of profit? and to this it seems that a negative answer must be given, since, even if the planters could get sugar grown at a smaller expense, their competition would compel them to reduce the price, and to content themselves with the same profit as those who employed free labourers. It is said, accordingly, that the planters of Demerara did not make more than 3 per cent. per annum for three years together. The planters say that they cannot grow sugar because "labour is dear," and that it is essential to the prosperity of the country that "cheap labour" should be imported; but the fact of which they complain is that sugar cannot be grown in those countries with as little labour as in other parts of the world, or else that the people find it more profitable to produce some other article than sugar. Whichever of these be the case, it is, of course, obvious that sugar should not be grown there, but it is not singular that those who think they can make a fortune by producing it should imagine that their own prosperity is the same thing as the prosperity of the country, and should call on the Government to assist them in obtaining it. Nor is it strange that the Colonial Office should assist the planters in their attempt to make themselves independent of the labourers of their own country, and should, at the distance of thousands of miles, support a system which is so injurious to our unfortunate dependencies. What is to be wondered at is that

Economists should recommend the views of the planters as exhibiting a sound appreciation of scientific principles, and should endorse the opinion that low wages are a benefit to a country. Thus the late Mr. Herman Merivale recommended the importation of coolies into Demerara on this ground, among others, that it would "bring down the enormous rate of wages by fair competition." * He would, no doubt, repudiate all intention of saying that a reduction of the comfort of the labouring classes can be a benefit to a country, and yet this is what his words imply, and the disparaging epithet "enormous" is applied to a high rate of wages, while the name of "fair competition" is given to the system by which labourers are practically prevented from choosing their own masters, or the rate of wages for which they will work. Unfortunately, Ricardo's theory of profit lends itself to the interpretation which is favourable to the views of planters, although he himself would not have put such a construction upon it. He repeatedly tells us that profit rises when wages fall, but by wages he means the proportion which the labourer receives of the whole product, and he means nothing more than that profit rises whenever it rises. If the planters could give the labourers a smaller share of the produce they would, of course, keep a larger share for themselves, but a mere reduction of the sum of money paid to each labourer, or even for a given quantity of work, has no effect on the rate of profit, but only on the price. If labourers cannot be induced to work unless bound by long contracts, it is a sure sign that they are not adequately remunerated, and a Government which compels them to adhere to them is sacrificing their happiness for the sake of enabling a few capitalists who will not labour for themselves to obtain a fortune by inflicting misery upon others.

So long as it is open to everyone to enter any trade which he chooses, the rate of profit in any one trade cannot be permanently higher than it is in others, but when a few individuals, or companies, or a government, enjoy a monopoly of one trade, they may obtain much more than the average profit on the capital invested. After a large sum has been spent in establishing a business, it is frequently found that the receipts increase more rapidly than the expenses, and that, therefore, the net profit would go on continually increasing, if competition, or the fear of competition, did not compel the proprietors to reduce their prices, and so transfer the benefit to the public. It appears from a paper read by Sir James Anderson to the Statistical Society in June, 1872, on "The Statistics of Telegraphy," that if, after the construction of a telegraph line, the company continues to charge the same tariff, the number of telegrams

* Lectures on Colonisation and Colonies, New Edition, 1861, p. 318.

sent will gradually increase, while the expenses will not do so in the same proportion, but that every reduction of the tariff is followed by a diminution of the net profit. This he shows to have been the case wherever it has been tried, whether in England or on the Continent, whether by a government or by a company. If, before the English Government assumed the control of the telegraphs, the companies had enjoyed a monopoly, they might, by maintaining a high tariff, have procured high dividends for themselves, but they were compelled to make several reductions in their tariffs by the fear that, if they did not, new companies would be formed, which would interfere with their business. Their competition, however, did not lead them to reduce their tariff below the point which would yield them a reasonable profit, and their unwillingness to do so was made a matter of complaint, and formed the principle reason which induced the Government to take over the management of the telegraphs. The tariff was immediately reduced, and this measure was vaunted as a great boon to the public, no regard being paid to the fact that an increased charge was imposed on the public in their capacity of tax-payers, in order to compensate the shareholders of the companies, and that the receipts of the telegraph department were but slightly in excess of the working expenses. Those who send telegrams have benefitted by the change, but why they, rather than the tax-payers, should be called the public, is by no means clear. As several reductions had been made in the tariff while the companies retained the business, it is probable that more would have followed if the Government had not interfered, but it is extremely unlikely that the Government will ever consent to a lower rate than the unremunerative one which is at present enforced. A government is even less disposed than a company to make experimental reductions in its tariff, in the hope of obtaining a larger revenue. The reform of Sir Rowland Hill was not introduced without the most vehement opposition on the part of the Post Office, and it would seem that the ordinary rate of letter-postage might now be reduced from 10c. to 5c.; but the reduction is not made because it would entail an immediate sacrifice of revenue. It is said that the profits of the Post Office are in excess of the ordinary profits of stock, but I cannot tell whether this is the case, as I have never met with any estimate of the amount of capital invested in it. At all events, the telegraphs are worked at a loss.

Before quitting the subject of profit, I will add a few words on a question which has been raised with regard to it, and which, though it does not come within the province of Political Economy, I am unwilling to pass over altogether. Many socialists hold the opinion that there ought to be no such thing as profit, and that whatever is received by

capital is, in reality, unjustly taken away from labour. I have endeavoured to show that the reason why capital yields a profit is, that its accumulation increases in productiveness of labour, and, therefore, there must be a profit wherever machinery is employed, and wherever labourers are maintained for any length of time, while engaged in any other work than that of procuring food. This profit need not be appropriated by the persons who provide the capital, but may be distributed among the labourers under the name of wages; and it is a legitimate subject for discussion, whether it is beneficial to society that those who do not labour should derive any benefit from the labour of others. But whatever solution of the question be preferred, the fact of profit will still remain, whether a class of capitalists does or does not exist. It does not belong to Political Economy to defend the existing arrangements of society; and it is highly undesirable to base any theories respecting the science on their supposed harmony with any notions of social equity. Bastiat considers that the theory that the rate of profit tends to fall as society advances, is the one which is best fitted to show that the interests of capitalists and labourers are harmonious, while, if I am right in supposing the rate to be permanent, both classes must be equally benefitted by every improvement in production, and equally injured by whatever impedes it; but whichever of these theories be the correct one, the question must be decided solely by reasoning from economic principles, and no theory which can receive the sanction of science, can in any way affect the truth of his great principle, that "tous les interêts légitimes sont harmoniques."

CHAPTER V.—RENT.

DEFINITION OF RENT—CAUSE OF RENT—RISE OF RENT WITH THE PROGRESS OF SOCIETY.

Besides wages and profit, there yet remains a third division of wealth, to which the name of rent has been given ; and the examination of the laws which govern it will terminate the subject of distribution. After the toil of the labourer and the abstinence of the capitalist have been remunerated, what remains of the product is given over to the landlord or owner of the soil, although he has contributed neither labour nor abstinence towards it production, but, as has been said, simply holds out his hand to receive it. This surplus is called rent, but the word has generally a more extended meaning, and commonly includes all payments which are made to the proprietor of a piece of land, or of a house, in return for permission to use them. In reality the rent of a house is, in general, no more than, or is, at least, in great part, the profit on the capital employed in building it, and, as such, it requires no further explanation. Houses cannot be built unless the builders obtain the same rate of profit as other traders, and those who use them must pay as much as will give the builders the necessary sum ; but the ground-rent which the builder has to pay is not to be so explained, since it is often paid for ground on which no capital whatever has been expended, and where, accordingly, there is no abstinence to remunerate. In like manner the rent of a farm often consists in part of the profit on the capital expended by its landlord, or former occupier, in improving it, and if it were only in such cases that rent were paid there would be no occasion to treat of it separately, but it might be dismissed as a form of profit. Rent, in the economic sense of the term, denotes only the surplus value of the product of industry beyond the profit and wages of the producers, and it is in this sense alone that the word will be henceforth used. It matters not whether the same person is owner and occupier of a farm, or whether they are two persons, but, in either case, the excess of the yield beyond what is sufficient to give the ordinary wages of the labour, and the ordinary profit on the capital employed constitutes the rent, and its existence is the phenomenon to be explained. Thus it will have been seen that several of the terms hitherto employed, capital, value, profit, and rent, have all been used in a sense somewhat different to that which is usually assigned to them, and Political Economists have been frequently

censured for pursuing this practice, which has been described as pedantic, and confusing to the reader. The latter objection is certainly well-founded, and many erroneous theories, and many hostile criticisms, have had no other origin than the misunderstanding of a writer who has used a word in a sense somewhat different from that commonly assigned to it. This has particularly been the case with regard to rent, and many of the controversies which are still raging on this subject might be set at rest if the disputants could consent to use the same words in the same sense. Sir H. S. Maine complains* that the minds of Indian officials have been confused by their attempts to reconcile the rent actually paid by the natives of India for the land which they cultivate with the rent which Economists suppose that farmers have to pay. It is much to be regretted that any mistakes should have arisen from this source, for the problem before the Economist is very different from that which the statesmen of India have to solve. The former seeks to discover the reason why a certain portion of the product of agriculture is given to persons who have not laboured to produce it, while the latter have to determine how much it is possible or desirable to make the cultivators of India pay towards the expenses of Government. It is necessary that some term should be used to express the thing which Economists are examining, and it would be a great advantage if they could follow the example set by chemists, and invent new names for the elements which their analysis discovers, but as this cannot be done, there is no other alternative except to use the word which most nearly corresponds to the idea, and to give due notice that it will be restricted to that sense alone. Dr. Whewell, in the notice of his friend Jones, prefixed to his edition of the latter's literary remains, remarks that the payment made by the cultivators to the owners of the soil is nowhere the same as the rent in the economic sense of the term, and he asks which of the two is more deserving of attention, the actual rent which is paid in all parts of the world, or the economic rent which is nowhere paid? The question shows an inability to appreciate the true object of science, since it is, in effect, to ask whether complex phenomena ought to be analysed or examined in all their complexity. He might as well have asked which is the most deserving of attention, the actual water, which contains numerous impurities, or the chemical water, which consists of oxygen and hydrogen alone. In order to unravel the intricate web which society presents to us, it is necessary to follow up the different threads one by one, and to object to this process on the mere ground that the web is intricate, is the same thing as to object to the solution of a difficulty merely because there is a difficulty.

* See the Chapter on Profit and Rent in his "Village Communities."

The first attempt to explain the existence of rent was made by Quesney, the founder of the school called "The Economists" in the last century, and his theory was, that agriculture yielded a rent while manufactures did not, because, in the former occupation nature co-operated with man, and gave a surplus above the expenses of production. He accordingly maintained that all taxes were really paid out of the surplus product of agriculture, since all that was produced in manufacturing industry was consumed by the labourers as fast as they produced it; and he recommended that the whole revenue of the State should be obtained by a tax on the rent of the land, as this would be the most direct way of obtaining a revenue from that which alone is able to furnish it. A little reflection will, however, show that this theory is unsound, for nature co-operates with man in manufacturing just as she does in agricultural industry, and no rent is paid in many cases in which the assistance of nature is most marked and important. It is owing to natural forces that the combustion of coal is able to work the machines of our factories, and yet the rent which our manufacturers have to pay is in respect of the ground which they occupy, and not of the use which they make of the power of steam; and they would have to pay as much if they erected dwelling-houses on the site instead of factories. Blackberries are spontaneously produced by nature, and the labour of procuring them is nothing more than that of picking them, and yet no rent is paid for permission to obtain them. The fish of the sea are produced in the same way without human labour; and yet no rent is paid for the co-operation of nature in the work of providing them for human use. In fact, Quesney's theory does not explain why the service of nature should need any recompense at all, since, if it enables man to produce things more easily than he could otherwise do, this would explain why the articles produced should be cheap and wages high; but not why a portion should be set aside for the benefit of an unproductive class. When a discovery is made which enables man to call in the aid of new natural forces in a branch of manufactures, the effect is to reduce the cost of the articles, but not to raise the rent of the factories; and Quesney does not explain why a different result should follow from the assistance of natural forces in agriculture.

The true explanation was first given by Dr. Anderson in 1777, but its truth and importance were so well demonstrated by Ricardo forty years later, that it has always been known as Ricardo's theory of rent. According to him, it is not because nature co-operates with man, but because she gives him less assistance in some places than in others, that rent is paid for the use of the more favoured localities. In speaking of raw produce, I have pointed out that all is not raised at the same cost,

but that it is, nevertheless, all sold at the same price, which must necessarily be sufficient to compensate the labour and abstinence exerted in raising the produce in the least favoured locality. But, if the value of the produce be equal to its cost on the worst soils, it must be more than sufficient to repay the cost of raising it on the better soils; and hence those producers who enjoy possession of the superior lands must receive something more than the same profit and wages as the others obtain. If, for instance, the labour of one man is sufficient to produce 105 hectolitres of wheat on the margin of cultivation, and the profit on the capital employed is equal to 5 per cent., the value of 100 hectolitres will be equal to one year's labour; and if on another farm the same amount of labour and capital produces 125 hectolitres, the value of these will be equal to the labour of a year and a quarter. It will not be merely equal to a year's labour, for there cannot be two prices in one market; and as it is a matter of indifference to a purchaser how much the article which he buys has cost the seller, he will be quite as willing to give a year's labour for 100 hectolitres grown on good land, as for the same quantity grown on poor land; and the farmers will accordingly demand the same terms in both cases. Hence there will be a surplus of the value of 20 hectolitres, the disposal of which is to be accounted for. It will not go to increase the wages of the labourer, since, by the supposition, he could not produce more than 100 hectolitres, if he left the farm and commenced farming on his own account, for all the lands on which more could be raised, are already occupied, and he could only obtain land equal to the worst already cultivated; for, of course, all the better lands have been selected before the worse were resorted to. It could not go to an increase of profit, for the rate of profit cannot be higher in one trade than it is in others, and if the possession of a particular piece of land enables its owner to obtain more than the ordinary rate, he can easily find some capitalist who will consent to take it on condition of paying him whatever is in excess of the usual rate, which, in the present case, is the value of 20 hectolitres, which still leaves him a profit of 5 per cent., and this surplus is the rent of the land. Thus, it will be seen that rent springs naturally from the fact that different soils are of different degrees of fertility, a fact which is too well known to require proof; and even if all soils were equally fertile, their geographical position would still give rise to differences among them which would make the labour employed upon some of them more productive than on others. If there are two farms of equal fertility, the produce of both of which is sent to the same market, one of which is distant only 10 kilometres, and the other 100 kilometres from it, the labour of conveying the produce will obviously be much less in the case of the former than in that of the latter, and the

former will yield a rent equivalent to the advantage derived from its position. It is always observed, accordingly, that rent is higher in the neighbourhood of London and Paris than in districts remote from the towns to which their produce is sent, and that the opening of a new railway is followed by a rise of the rent of the adjoining lands.

It is, indeed, observed also, that wages are higher in the neighbourhood of large cities, but this is the consequence of the greater skill or strength of the labourers; the former, perhaps, produced by the more frequent intercourse with the active and intelligent inhabitants of the city. It is found that a Dorsetshire labourer cannot do much more than half as much work as a Yorkshireman, and this is because he is badly fed; and this, in its turn, is the consequence of the low wages which his inefficiency causes him to receive. If manufactures were to arise in Dorsetshire, there would soon take place a rise of wages, which would commence in the towns where more intelligent labourers would be imported or produced, and would gradually spread to the rural districts, because the labourers would desire to flock into the towns, and the farmers to retain them by giving higher wages, which would be followed by a corresponding improvement in the efficiency of the rural labourers, through the better diet and clothing which it would enable them to obtain. The neighbourhood of a town would also afford an opportunity for the occasional employment of the labourers, or their children, which would form an addition to their wages; and the facility which it would afford to the farmers for disposing of their produce would enable them to find more constant employment for their labourers, and, therefore, to give them higher wages. But after the labourers have been remunerated in proportion to their efficiency, there still remains a difference in favour of the most conveniently-situated farms, and this the landlord can appropriate as rent, since the rate of profit is the same in all parts of the country, and the competition of the capitalists will compel them to content themselves with the usual rate, and to pay the surplus to the landlord. It will be seen that the theory assumes that there is in every country a certain margin of cultivation, or land which pays no rent, and that there are three distinct classes, the landlords, the capitalists, and the labourers, who are maintained out of the produce of the soil. The margin of cultivation, is of course, determined by the population of the country; and, if from any cause the margin should rise, *i.e.*, much land already cultivated, should go out of cultivation, a fall of rent would be the consequence. If, for instance, in the case above supposed, a diminution of the population should render it unnecessary to cultivate land yielding less than 115 hectolitres for each man employed, the rent of the superior land yielding 125 hectolitres, would fall from 20 to 10 per annum; and if

an improvement were suddenly introduced into agriculture by which the produce of the inferior land would be so much increased that none would yield less than 115 hectolitres, and that much which had yielded less might be suffered to go out of cultivation, rent would in the same way fall to 10 hectolitres. It was by such reasoning that Ricardo was led to enunciate his celebrated paradox, that the interest of landlords is opposed to agricultural improvements; and, in the sense in which he understood the terms, the proposition is perfectly true. By a landlord he understood one who lives entirely on the rent of his land, without expending any capital upon it; and by an agricultural improvement, he meant the sudden adoption of some new process which would enable the whole quantity of food required by the whole people to be produced on a smaller quantity of land than had before been necessary, and he assumed that no increase of population took place. Under these circumstances the interval between the worst land and the best land in cultivation is diminished; and the rent which corresponds to this interval is diminished also, and the landlord is accordingly a loser by the change. The proposition appears paradoxical, because it is obvious that landlords who expend capital in improving their estates, derive a greater revenue from them; but the increase should be more properly regarded as profit than as rent; though, if the improvement be a permanent one, the increase is enjoyed by their successors in the same way as if it were derived from the natural properties of the soil, and is paid because the land is superior to the worst cultivated in the country. The case cannot occur, because agricultural improvements are only introduced by degrees, and are generally followed by an increase of population; and even where this does not take place, the land which is no longer employed for producing food, is used for some other purpose, and the landlords lose nothing by the change. The general tendency is towards improvement in some places, while the old system is still pursued in others; so that the landlord derives the benefit in those cases where the improvement is adopted, and the new process enables inferior land to be cultivated and yield food at its former cost, and become the margin of cultivation instead of the old. The question, however, has more than a theoretical interest, for English landlords long upheld the Corn Laws in the belief that their repeal would reduce the cost of corn, cause land to go out of cultivation, and reduce rents. In a few instances this may have happened, but the repeal of those laws did not produce any general fall of rent; but the large importation of foreign corn which followed, produced an increase of population, and the cost of wheat was not, as a rule, reduced. In those cases in which it was not thought profitable to continue to grow

wheat, the land was not suffered to remain idle, but was used as pasture, and yielded as high a rent as before.

As the value of raw produce is determined by the cost of producing it on the margin of cultivation, and as this yields no rent, it follows that rent is not an element in the production of value, but is simply its effect, and that if no payments were made by farmers to landlords, the value of the produce would not be diminished. The same rule which applies to land under tillage, applies also to that which is used for extracting minerals of any kind, and the rent of a mine is the excess of the value of its produce beyond what is necessary to compensate the labour and abstinence exerted in working the worst mine of the kind which is permanently worked. The high rents paid for building-land in the midst of a town are, in the same way, the results of the facilities which the sites afford for carrying on a larger business than can be done in the country. The almost fabulous prices paid for land in the city of London, tend to keep down the rate of profit in the city to the same level as in the suburbs, for, if it were not for the rise of rent, the tradesmen of the city would enjoy a great advantage by living in the immediate neighbourhood of all the houses of business, wharves, banks, etc., to which they have occasion to resort. Their competition, however, makes them content themselves with the usual rate, and pay the difference, in the form of rent, to the owners of the ground on which their warehouses are built, and, even if they are so fortunate as to be themselves the owners, this would not be considered as securing them higher profits, but rather, as showing that they have invested a larger sum in their business, since they can at any time obtain a large sum by selling the land and merely taking a lease of their houses, but, if they do not do so, they may be supposed to find it more profitable for their business to invest it in the land. The value of land is simply the value of the prospect of receiving rent from it, and the reason why it has a value, although no labour has been expended upon it, is simply that some portions of it are more productive than others, and that the better land is worth something in consideration of the labour which it saves to its possessor. Wages and profit are like the primary and secondary strata, which, Geologists tell us, are to be found in all parts of the world, either above or below the surface, while rent is like the tertiary strata, only to be found in a few scattered localities.

It has been frequently objected to Ricardo's theory, that the actual payment made by farmers to the owners of the soil is not the same as that which the theory supposes, and much labour has been employed in collecting information from all parts of the world in order to decide what it is that they actually do pay. The landed tenures of different

countries present numerous and important differences amongst themselves, but when they are closely examined it will be seen that they do not furnish any grounds for questioning the truth of the theory. In some countries, as in those parts of France and Italy where the "metayer" system is in vogue, the landlord receives not a fixed sum of money, but a certain share of the produce, sometimes one-half, but more generally one-third, and this certainly is not the same as the rack-rent which they would obtain if they offered their farms for competition after the English fashion. In India, again, the ryots pay to the State a fixed proportion of the produce of the land which they cultivate, and no attempt is made to obtain a higher payment by letting the land to those who offer the best terms. In the former of these cases the landlord is required to bear part of the expenses of cultivation, and he is, in fact, a capitalist who requires a profit on the capital which he expends, and the sum which he receives may be no more than the rent, properly so called, and the profit to which he is entitled. If it be less than this, the "Metayer" (as the tenant is called) receives a portion of the rent, and Ricardo's theory does not pretend to say that the landlord always receives the rack-rent, but only that he can do so if he offers his land for competition to a class of capitalist farmers. In India, the payment which the ryots have to make is a tax determined not by competition but by the will of the Government, and it may be paid out of rent, of profit, of wages, or of all three, without affording any proof that the produce of the land is not divisible into these three categories. In some countries, as in parts of Belgium and Germany, the same person is both owner and cultivator of the ground, and unites the functions of landlord, capitalist, and labourer, and in such a case he has no payment to make for the use of the soil, but as different farms vary in fertility, the peasant who is proprietor of a superior one receives more in return for the same amount of labour and capital expended, and the surplus is the rent which he could obtain if he let his land to another, and the amount of which would determine the price which he would receive if he sold it.

A more serious objection is, that there is, in fact, no land which does not yield a rent; and it is urged in proof of this that landlords would not let any land without exacting a rent for it. In fact, however, the good land does not lie in one part of the country and the poor land in another, but they are intermingled, and the same farm contains some of each, while the rent, though nominally charged for every hectare, is, in reality, paid for the good only, a deduction being made in consideration of the bad for which no farmer would consent to pay anything. This fact may partly explain why large farmers are required to pay a smaller rent per hectare than peasants who only occupy three or four hectares, since the latter can more easily select a piece of ground no part of which

is extremely poor. This, however, is not sufficient to explain the extremely high rent which can be obtained for very small holdings, which can only be accounted for by the wonderful efficiency of the labour expended upon them. The average yield of wheat per hectare amounts in England to 25 hectolitres, and this is a much higher rate than prevails in other countries, and 50 hectolitres is considered a large yield for the best land; but 40 hectolitres have been obtained by a labourer from a piece of ground of the extent of 40 ares, thus being at the rate of 100 hectolitres per hectare. The industry of a man working on his own account is so much superior to that of a hired labourer that the produce is very much increased, and the landlord can obtain a considerable share of this increase, because the tenant would rather pay a much higher rent than be ejected from his farm and sink into the condition of a hired labourer. If hired labourers could be induced to work as steadily and carefully as peasant-proprietors, a great rise of wages would be the result; but, as this cannot be done, the landlords are able to appropriate much of the benefit, and to reduce the receipts of the peasants to little more than the usual rate of wages and the usual profit. In many cases, where land is too poor to afford a rent, it is cultivated by the owners, who derive from it merely the usual profit, after paying the wages of the people employed; and thus the objection that there is no land which affords no rent, hardly accords with the facts. But even if it were true that there was no land which did not pay rent, there would still remain the fact that all capital employed in agriculture is not equally productive; and even if a farmer has to pay rent for every hectare which he occupies, some of the capital which he expends in improving his land to the highest pitch brings him in no more than the ordinary profit. To render the theory still more accurate, we must say that rent is paid wherever agricultural capital is employed in any other than the least favourable circumstances, and, with this modification, it holds true in all states of society; and the farmers who find that some portions of their capital yield more than the ordinary profit, are compelled, under the rule of competition, to give the surplus to the landlords. It is true, that, in America and Australia, the Government obtains a rent, or a price for waste land, even when of no better quality than the worst already cultivated, and this fact is certainly not accounted for by the theory; but this does not show that the theory is incorrect, but only that there is some other cause in operation besides that of which the theory takes account. One fact cannot contradict another fact, and the theory, if it be correctly drawn from facts, cannot be affected by any other facts which may be brought forward. As Cairnes* has well observed: "We have here no alternative but to assume

* Character and Logical Method of Political Economy, 1857, p. 153 (*note*).

the existence of a disturbing cause. In the case before us, *e.g.*, under whatever circumstances rent may be found to exist, this can never shake our faith in the facts that the soil of the country is not all equally fertile, and that the productive capacity of the best soil is limited ; nor weaken our confidence in the conclusions drawn from these facts, that agricultural produce is raised at different costs, and that, in the play of human interests, this will lead to the payment of rent to the proprietor of the superior natural agent." In fact, a payment made under these circumstances owes its origin to the will of the Government, and is quite as much a tax as an income-tax or a sugar-duty, and it cannot, in an economical point of view, be considered as rent. It is not a surplus beyond the expenses of cultivation, but is a part, and it may be a serious part, of the expenses of reclaiming the land in question, and while rent is not the cause, but the effect, of the value of raw produce, a tax on waste land tends to raise the price of agricultural produce to such a point, that the burden is equally divided between the farmers and all other consumers. When a government professes to charge the same price for all the waste land at its disposal, it cannot, of course, make the bad land equal in value to the good ; but the former remains unsold, and only those lots are taken up which are considered equal to those already occupied. The Government of Queensland offers to immigrants a land-order, entitling its holder to 16 hectares, said to be worth 1,000f., but this is simply an imposition on the credulity of the immigrant, and those who receive them find that there are no lands not yet disposed of which are worth 1,000f., or, indeed, any other sum, and that the order is simply so much waste paper. What is freely given away cannot be worth much ; and the Queensland Government might just as well offer to the immigrants a present of a thousand francs worth of air. If a settler has purchased a piece of ground from the Government, which he finds to be not so good as he expected, he sells it at a reduced price to some one else, and thus the poor land soon ceases to afford a rent. The perverse ingenuity of Wakefield was strained to the utmost in devising means to prevent the operation of this natural process, but no Government has ever been able, or has even persistently tried to repress it, and what is worth nothing soon ceases to have any value. Both in the United States and in British Colonies it is now found to be a wiser plan to give away land to intending settlers. In commercial language the name of rent is often applied to the royalty received by a patentee from all those who make use of his invention, as, *e.g.*, that received by Mr. Bessemer, in respect of his invention, was called the Bessemer rent ; but this, too, is not a surplus above the expenses of production, but is a part of them, and the expiration of the time for which the patentee's rights endure, is looked forward to as the date when a reduction of the

price of the patented article will take place. The existence of such a rent is entirely owing to the action of Government, and it only differs from other taxes in being imposed for the benefit of an individual, instead of for that of the State.

It is admitted on all hands that a rise of rent accompanies the progress of society in wealth and civilisation, but great difference of opinion exists as to the cause by which this result is brought about. Ricardo ascribes it to the increase of population, which renders it necessary to resort continually to poorer and poorer soils in order to obtain food, since as rent is the difference between the produce of the superior lands, and that of the margin of cultivation, it is clear that the lower the margin, the greater is the surplus which the better lands afford. If the best land formerly yielded 125 hectolitres to the labour of each man employed, while the worst yielded 105, the rent of the best would be equivalent to 20; but if it becomes necessary to resort to land which yields only 84, then the best land will give a rent of 41; and the former margin will give a rent of 21, and this will be a very great increase of rent. If it were true that the cost of food tends to rise as population increases, Ricardo's explanation would be amply sufficient; but I have already endeavoured to show that an increase of population is the effect, and cannot be the cause, of an increase of food, and that the cost of food tends not to rise, but to remain stationary; and it is therefore necessary to find some other explanation. It has been frequently objected to Ricardo's theory (as, *e.g.*, by Mr. Rickards in his "Population and Capital,") that, in point of fact, the cost of food does not continually increase, and has not done so in England during the last five centuries. But though this shows the theory to be inadequate, it does not show it to be incorrect, since Ricardo and his followers admit that the upward tendency may be counteracted by agricultural improvements; and the fact merely shows that the latter have been sufficient to prevent the cost of food from rising.

Mr. Carey, the American Economist, maintains that the cost of agricultural, as of all other products, tends to fall as society advances; and he altogether denies that cultivation commences with the richer, and gradually extends to the poorer, soils. In an able and interesting chapter of his "Principles of Social Science," he shows, by reference to almost every country in the world, that the first settlers have always preferred the less fertile hill-sides, and that it is only after society has made some progress that the more fertile river bottoms are reclaimed. But though the facts are as Mr. Carey states them, they are not sufficient to prove his point, for it by no means follows that because a piece of land yields more for each hectare than another piece of land, it yields more in pro-

portion to the labour bestowed upon it. The very reason which he assigns as having induced the settlers to prefer the hill-sides is, that these lands could be more easily drained than the marshy river bottoms; and the reclamation of the latter is deferred until society has the means of bestowing a great deal of labour upon the task. This is, in effect, to say that cultivation begins with those soils which yield the most in proportion to the labour bestowed on them, and proceeds gradually to those which yield less; and this is all that Ricardo contends for. One reason which Mr. Carey gives, is the obvious one that the hill-sides which are easily drained are more healthy than the valleys; and this, in an economic point of view, is much the same as saying that they require less expenditure upon them since the mortality among the labourers is an important element in the cost of an undertaking. The late professor Rowe, of Heidleberg, after reciting the opposite opinions of Ricardo and of Mr. Carey, respecting the effect of the progress of society on the cost of food, observes,* that neither of them can be accepted as a correct statement of a general law, but that it sometimes happens that the cost of food rises, and sometimes that it falls; but though there are different forces tending in opposite directions, it does not follow that there is no general cause in operation, and the object of science is to explain what these tendencies are. Our answer to the question, why rent rises as society advances must be determined by the answer which we give to the question what is the effect of this advance on the cost of food; and, as I have followed Mr. Rogers in maintaining that the cost of food tends to remain stationary, so I follow him in ascribing the rise of rent to the progress of agricultural improvements. It is not, as Ricardo supposes, because land is cultivated which only yields 84 hectolitres, that the land which yields 105 comes to yield a rent, though it had not previously done so, but an improvement is made which enables 105 to be got from land which would not previously yield more than 84; and this, also, enables more than 105 to be obtained from the old land, and the surplus goes as rent to the landlords. During the last five centuries numerous improvements of various kinds have taken place in English agriculture, such as the introduction of the rotation of crops in place of the old system of fallows, subsoil drainage, the use of Guano and other manures; and the effect of all these has been an enormous increase in the average yield of arable land. Five centuries ago, the average yield of wheat per hectare was only 7.25 hectolitres, while it is now 25; and yet it does not appear that the value of wheat is on the average less at the present time than it was then. Improvements of one sort

* Grundsatze der Volkswirthschaftslehre, Achte Ausgabe. Leipzig und Heidelberg, 1868. Erste Abtheilung, p. 317.

or another are constantly taking place, but, as the increase of population keeps pace with the increase of food, a discovery is sure to be followed by the reclamation of land which was formerly thought too poor; and as the value of food remains stationary, while the cost of producing it is diminished throughout a great part of the country, a rise of rent is the necessary consequence. This explanation, however, must not be confounded with that given by Mr. Carey, who maintains that the rise of rent is entirely due to the expenditure of capital on the part of landlords, and that rent is nothing more than profit on the capital expended upon land by its present or previous owners. There are many cases, no doubt, where the revenue which a landlord receives from his estate is entirely owing to the expenditure which he or his predecessors have made on its improvement. Cases of this kind may be found where a marsh has been drained at a great expense, and where the outlay has been repaid by the increased productiveness of the soil, or where an embankment has been made to protect a district from the encroachments of the sea; and such cases must be common in Holland; but if rent could always be traced to such an origin its existence would not require any special explanation. But it is notorious that many landlords are able to raise their rents without expending any capital upon their estates, as is exemplified in the rise of new watering places, such as Eastbourne and Torquay, where the land rises in value before the houses have been built, and as soon as it is thought that the place will prove a popular resort in the summer or the winter season, as the case may be. It is well known that the opening of a new railway is followed by a rise in the rents of the adjoining lands, although the landlords have contributed nothing towards it, and may have even opposed its construction; but it diminishes the cost of raising the produce, or, at least, of bringing it to market, and this raises the rent by increasing its superiority to the margin of cultivation. Mr. Carey maintains that the price of all the land in a country is not more than equivalent to all the money which has been spent in improving it; but whether this be so or not, the fact still remains, that rent often rises where no capital has been expended, and this is the fact to be accounted for. This argument of Mr. Carey's has been used by Bastiat to establish the equity of allowing land to become private property, which, according to him, is simply allowing the landlords to enjoy the fruits of the labour which they have expended in improving their lands; but, as it is a notorious fact that landlords frequently derive an increase of rent from the expenditure of their tenants, or of railway companies to which they have contributed nothing, his argument affords but a poor defence for the institution of landed property. As I have observed in treating of profit, it is not the province of Political Economy to defend the arrangements which may be made in

different states of society for distributing the produce of the labour of the people, and it is enough for the Economist to show that rent must exist, without discussing the advantages of different methods of disposing of it. Whether land be held from the Government, or owned by the cultivators, or held from private individuals, there must, in all cases, be differences in the productive capacity of different farms, and the excess of the produce of the better ones over that of the worst will constitute rent, and the question whether the existence of this rent is just or unjust has no meaning whatever ; while the question whether it is well for society that there should be a class subsisting entirely on the labour of others, and giving nothing in return, is one for the social philosopher, and not for the Political Economist.

The same law which determines the rent of land used for tillage or pasture, determines also the the rent of mines. Mines, like farms, differ in fertility, and the rent which most of them yields is the measure of their superiority to the worst which is worked, and which is just able to return the usual profit and wages to those who work it. As it becomes necessary to proceed to a greater depth below the surface, the cost of working the mine tends to increase, and, as the more fertile ones are worked out, the cost of raising the mineral from the inferior ones tends likewise to increase. From both these causes the cost of minerals tends to rise as society advances, and the rent of the superior ones which are not exhausted tends to rise, in consequence of the rise in the value of the mineral. There are, however, many mechanical improvements, and many discoveries of new mines, which are perpetually counteracting this tendency, and, in point of fact, the value of gold, of silver, and of iron, is much less now than it was five centuries ago. These discoveries for a time lower the rent of mines, since they cause some of the inferior ones to be abandoned, as, for instance, was the effect of the Californian gold discoveries on the gold mines of Siberia. The Russian Government had imposed a tax on the produce of these mines, which they were well able to afford when they were the most fertile then known, but as soon as the Californian discoveries took place the value of gold fell to such an extent that the Siberian mines could no longer afford this tax, and as the Government refused to remit it, many of them were abandoned, and the production of gold in that region very much diminished. But though the effect of these discoveries is for a time to lower the rent, there are still such great diversities between the productive powers of different mines, and so many improvements may be made in some of them which are not applicable to others, that it is probable that even where the value of the mineral has diminished instead of increasing, there is, nevertheless, a great increase in the aggregate rent of all the mines in the country.

CHAPTER VI.—RECENT FALL IN THE VALUE OF GOLD.

PROOFS OF THE FACT—CAUSE OF THE FALL—ITS CONSEQUENCES.

HAVING now treated of the general principles which regulate the distribution of wealth among the different classes of society, I propose to apply them to the elucidation of a question which has been frequently discussed during the last quarter of a century, the question, namely: What effect have the discoveries of gold in California and Australia had on the value of that metal? The first thing necessary to a solution of this question is a clear understanding of what is meant by the value of gold, but this, unfortunately, is a preliminary step which most of those writers who have turned their attention to this subject have neglected to take, and the consequence is, that even when writing many years after those discoveries, they have still left it doubtful whether the value of gold has altered or not. Mr. Fawcett* adduces the difference of opinion prevailing on the subject as a proof that no considerable alteration has taken place, but I venture to think that it is the consequence of the vagueness of the idea commonly attached to the word value, and that until a clear and definite notion has been substituted in its place, the question can never be satisfactorily settled. Those who define the value of gold as its power of purchasing commodities, are obliged, when they seek to ascertain the changes which have taken place in its value, to ascertain the prices of all other commodities, or, at least, of a great number of commodities, a process which entails upon them a considerable amount of labour, and even when this has been incurred, the result is far from satisfactory, and is likely to be less so just in proportion as the labour of collection is increased. When Adam Smith traced the changes which had taken place in the value of silver, he compared it with one article only, namely, wheat; and he assumed that the cost of producing wheat was always the same when an average of ten or twenty years was taken as a basis for the calculation. Tooke, however, has now shown that even a period of fifty years is not sufficient to exclude the operation of the natural causes which produce temporary

* Manual, 1863, p. 495.

variations in the value of wheat, and that in some cases where Adam Smith thought that the value of silver had risen, it is more likely that that of wheat had fallen. Though Adam Smith's calculation was thus liable to error, it was still as near an approximation to the truth as he could make with the limited means at his disposal; and he had in his mind a perfectly definite idea of what he meant by a change in the value of silver. When he said that its value had fallen, he meant that a given weight of it, which would formerly have enabled its possessor to command the labour of an Englishman for a whole day, or would have exchanged for an article which required a day's labour to make, would only command two-thirds of a day's labour, or something less than a whole day's, and would only exchange for an article which had required less than a day to make. But the writers who have investigated the effects of the recent gold discoveries, as, for instance, Mr. Newmarch, and Mr. Cliffe Leslie, have endeavoured to ascertain whether a given quantity of gold now exchanges for as much of all other commodities as it formerly did, and to do this they have collected tables of the prices of various kinds of corn and other commodities, the effect of which is rather to render it difficult than easy to determine how much the value of gold has altered. The prices of some of these articles show a considerable rise, while others show only a slight rise, while others are stationary, and some have fallen; so that it is impossible to say to what extent the relation in which gold formerly stood to all of them has undergone an alteration. The prices of corn and other vegetables do indeed exhibit a rise, and if we confine our attention to these we are led to suppose that the purchasing power of gold has diminished, but as the prices of many manufactured articles have remained unaltered, or have even fallen, the purchasing power of gold has not diminished in these cases, and there is no standard by which to determine how much importance is to be attached to each of these classes of commodities. If we find that the prices of all kinds of grain have risen 50 per cent., while those of all kinds of cotton goods have fallen 50 per cent., and if we hence infer that the value of gold has remained stationary, it is an arbitrary arrangement by which the cotton goods are made equivalent to the grain, and the conclusion would, in fact, close our eyes to the causes which are operating on the values of those commodities. It may well be that the cost of producing corn has remained stationary while that of producing gold has diminished, and that cotton cloth has diminished twice as much as that of gold, but the table will not tell us which of these explanations is the true one. Even if the prices of all the articles mentioned have risen, they are never found to have all risen in the same proportion, and thus the statistics fail to give a precise answer to the question, how much the

value of gold has fallen, and thus fail to perform the very purpose for which statistics are useful and desirable, that of substituting a precise idea for a vague notion. Mr. Newmarch, accordingly, does not venture to tell us how much the value of gold has fallen in England, nor does Mr. Cliffe Leslie, in his article on "The Gold Question and the Movement of Prices in Germany" (Fortnightly Review, November, 1872) tell us how much it has fallen in Germany. It is almost impossible to say whether a person who now receives 2,500f. a year is better or worse off than one who enjoyed an equal income twenty years ago, for while he has now to pay more than formerly for the same quantity of meat or of butter, there are many other things for which he has to pay less, and we have no standard by which to measure comfort, and even if we were to find an individual whose income had remained unaltered during the whole period, and were to ask him whether he was better or worse off, his recollection would be too vague to be relied upon as a test. So long as value is taken to mean the relation in which a commodity stands to all other commodities, the vagueness of this fundamental notion must infect all the reasonings which are based upon it, and the difficulty of measuring or explaining changes of value must remain insuperable.

It is admitted that value depends on cost of production, yet, when the cost of producing an article is known to have varied, doubts are still expressed as to whether its value has altered, merely because the cost of producing other articles has varied also. If it were first ascertained how much the value of gold had altered, the prices of other commodities would show how much their values had altered, but to attempt to ascertain each of these quantities from the other is like attempting to discover two unknown quantities from a single equation. I shall not, therefore, inquire whether a given weight of gold will now exchange for more of commodities in general, because such a question appears to me to be insoluble; nor shall I assume that wheat or any other article is always produced at the same cost, because such an assumption is not warranted by the facts, and is not required when the means are at hand for obtaining a correct measure of value. Value, as has been observed in the first chapter of this book, was understood by Adam Smith to denote the esteem in which a commodity is held, and it is only in this sense that the word is used in the present work. The measure which he suggested for ascertaining the degree of esteem in which different commodities are held in different times and places, was, the amount of labour which labourers would perform in order to obtain them, and as different kinds of labour are unequally remunerated, it is necessary that some one class of labourers should be taken as the standard, and the one naturally

suggested for this purpose is that of common unskilled labourers. When the value of any other article except the precious metals is under discussion, it is necessary first to ascertain the price of the article, and then to compare it with the rates of wages; but in the case of gold there is only one process to be performed, since wages are in this country paid in gold (or in silver coin, which is exchangeable for gold at a fixed rate) and a change in its value, therefore, shows itself at once in the form of a rise of wages.

The question, therefore, resolves itself into an inquiry how much the rate of wages paid to unskilled labourers has risen in this country since 1850, but as the rates are not the same in all parts of the country, and as the alterations have not been uniform, it is necessary to collect the rates from different parts, and to compare the averages of the two periods. It was in 1850, that is, after the Californian, and before the Australian discoveries, that Mr. Caird made his tour through England, and this epoch is therefore a most convenient starting point for the comparison in question. He has only set down the rates of wages in twenty-nine counties, but this is a sufficiently large number to form a basis for a comparison, and as his information was derived from personal inquiry on the spot, and sometimes from actual reference to the farmers' books, and as his sole object was to state the facts exactly as he found them, his statements may be received with implicit confidence. In the following table I give the rates of daily wages in 1850-51, and in 1869-70, the former being taken from his "English Agriculture in 1850-51" (2nd edition, 1852, p. 512), and the latter from a table contributed by Mr. Edward Stanhope to the "Times" of April 9th, 1872; the figures in both cases being reduced from weekly to daily rates, and from shillings and pence to francs and centimes. Mr. Stanhope's table is compiled partly from the report of the Commission on the Employment of Women and Children in Agriculture, and partly from Poor Law returns; and these latter do not include all the unions in a county, so that the average of a part of a county may sometimes be incorrectly taken to represent the whole; but I trust that this source of error will not materially vitiate the calculation. The arrangement is the same as that of Mr. Caird, except that I have put one figure for Yorkshire, while he has given one for each of the Ridings. I should observe that the table is only intended to show the amount of money received by a hired labourer for a day's work, and that a very incorrect notion of a labourer's yearly earnings would be obtained by simply multiplying the daily rate by the number of days in a year.

Table of Agricultural Wages in 1850-51 *and* 1869-70.

	1850-51.	1869-70.		1850-51.	1869-70.
Northern Counties—	f. c.	f. c.	*Southern Counties*—	f. c.	f. c.
Cumberland	2 70	3 45	Gloucester	1 45	2 20
Lancashire	2 81	3 22	Wilts	1 50	2 08
Yorkshire	2 60	3 0	Devon.....	1 75	1 75
Cheshire.....	2 50	2 40	Norfolk	1 75	2 40
Derby	2 30	3 12	Suffolk	1 45	2 30
Nottingham	2 08	3 12	Huntingdon	1 75	2 20
Stafford	1 97	2 50	Cambridge	2 20	2 40
Northumberland .	2 30	3 45	Bedford	1 87	2 40
Durham	2 30	3 45	Hertford.....	1 87	2 30
Lincoln	2 08	3 12	Essex	1 66	2 40
			Berks	1 55	2 30
Southern Counties—			Surrey	1 97	2 80
Warwick.....	1 75	2 40	Sussex.....	2 20	2 60
Northampton....	1 87	2 50	Hants	1 87	2 20
Bucks	1 75	2 40	Dorset.....	1 55	1 87
Oxford	1 87	2 50	Average	1 98	2 58

Thus the average rise has been 30 per cent., and as a further rise has taken place in several counties since 1870, it may be taken to be equal to one-third, which is the same thing as a fall of one-fourth in the value of gold, since four francs will hardly command more labour than three francs would formerly have done. The people show that they esteem gold less than they did, by their refusal to make as great sacrifices as formerly to obtain the same amount of it. The fineness and weight of the coins having been the same at both periods the change is not merely nominal, but is an actual change in the value of every gramme of gold. There is a great difference among the different counties as regards the extent of the rise, which in Northumberland is as high as 50 per cent., while Devonshire exhibits none at all; and this difference proceeds from the unequal rate at which the different counties have advanced in industrial activity. The northern counties still retain their superiority over the southern, which is due to the greater intelligence and activity of the northern labourers, and perhaps, in some degree, to the greater enterprise of the northern farmers, which leads them to turn their attention to the raising of those products which are the most certain to bring in remunerative prices. But many of the southern counties have made considerable progress as compared with themselves, and, as labour is remunerated according to its efficiency, the unequal rates of progress in

different counties will be sufficient to produce variations in the rates of wages, but not to produce a general rise. This could not take place unless the efficiency of English labour had increased more rapidly than that of labour in those countries which supply us with gold, and it can hardly be supposed that England has made more rapid progress in this direction than America and Australia. The differences in the remuneration of labourers in different parts of the country are even greater than the table implies, since each figure is the average of a county, and in some parts of Yorkshire the rate is as high as 4f. a day, while in parts of Devonshire it is as low as 1f. 66c. It is worthy of remark, that when Arthur Young made a journey through England for much the same purpose as that of Mr. Caird, he found that the rates prevailing in the northern counties were much lower than in the southern, while Mr. Caird, eighty years later, found that the case had been reversed.

The latter writer has given a table illustrating this point, to be found in his work already referred to. At the time when he made his tour, the country was in a state of transition, following on the repeal of the Corn Laws, and he found that in some districts the rates were lower than they had been the year before, because the farmers had been accustomed to rely chiefly on wheat, and had not yet seen the necessity of turning their attention more to the production of meat, butter, &c., which were then fetching more remunerative prices than grain. The great extension of pasture which has taken place since that time has no doubt done much to remove this cause of low wages, but no tendency is shown towards an equalisation of wages throughout the country, which can never be brought about until the labourers in all parts are equally strong, and equally intelligent. Mr. Caird expressly mentions that the poorly-paid and poorly-fed labourers of Wiltshire are much less active and intelligent than those of the north; and he points out the significant fact that the line dividing the well-paid from the ill-paid districts, is the boundary of the coal measures, which affords a convincing proof of the benefits which manufacturing industry confers not only on those actually engaged in it, but also on the agricultural population of the labouring districts.

Agricultural labourers have here been taken as the standard, because agriculture is less subject to fluctuations than other trades, and therefore a change in the rate of wages is less likely to be produced by a cause peculiar to the trade itself. But such information as I possess goes to show that wages have risen in other trades also, though it is too fragmentary and too uncertain to be relied on as a proof of a general fall in the value of gold. Thus, for instance, a table given by Mr. Brassey in his "Work and Wages" (2nd ed., p. 38), shows that the wages of the bricklayers, carpenters, and blacksmiths employed by his father in the

construction of railways, were six per cent. higher in 1869 than in 1849, and though the weekly wages of the navvies were the same in both periods, yet the fact that the price paid for the same amount of earthwork was ten per cent. higher in the latter year, shows that they performed less labour for the same amount of money. Another table given in the same work (p. 157), shows that at the Canada Works, Birkenhead, the rates of wages paid to engineers were not materially higher in 1869 than they had been in 1854 ; but even in the engineering trade there was a reduction of the hours of labour to nine a day, after the great strike at Newcastle in 1871, which is equivalent to a rise of wages. The reason why this particular trade is more slow to feel the effects of a general rise of wages is, no doubt, that which is given by Mr. Brassey, that English manufacturers have, in this branch of industry, to contend against a vigorous competition on the part of their continental rivals, and that, therefore, wages cannot rise in England unless a corresponding rise takes place on the Continent, and more time is required to effect such a general movement. Another table in the same work (p. 198), prepared by Messrs. Lucas Bros., the well-known builders of London, shows that, previous to 1853, they paid their masons, carpenters, and bricklayers, 62c. an hour, and subsequently to 1866, 83c. for the same time, while the wages of the labourers rose during the same time from 36c. to 48c., so that, in this case, the rise is the same as in that of the agricultural labourers. A further rise took place in many establishments after the strike in the London building trade in 1872, which year, indeed, was remarkable for the rise of wages which was obtained, by some means or other, by the workmen in every, or almost every, trade. This evidence, then, is sufficient to show that there has been a fall in the value of gold in this country since 1850, and there is not wanting evidence of a similar rise in France and Germany. In France, M. De Lavergne, in 1859, gave the average rate of agricultural wages as 1f. 50c. a day, while Mr. E. Stanhope, writing to the "Times" on April 23, 1872, gives this as the rate of winter wages in 1869-71, and the summer rate as 2f. a day. Mr. Fane,* probably confining his observation to a smaller portion of France than these writers had done, says that the wages of French labourers had risen from 1f. 87c. a day to 2f. 70c., or 2f. 91c., during the twenty years which preceded the time when he made his report to Lord Stanley. At Creuzot, as Mr. Brassey informs us (p. 160), the mean rate of wages rose 38 per cent. between 1850 and 1866. Another table which he gives (p. 92), shows that the wages of almost every class of mechanics employed in building ships for

* See Brassey's "Work and Wages," p. 158.

the Messageries Impériales, rose considerably between 1859 and 1869. The Berlin correspondent of the "Times" mentioned, on April 16, 1872, that a great rise of wages had recently taken place among all classes of labourers in Germany, and in particular among those employed in the building trade of Berlin, whose wages had risen about 50 per cent. since 1864. Mr. Cliffe Leslie gives tables which show a considerable rise in the price of many articles throughout Germany during the period in question, and, though the method which he has adopted prevents me from receiving his testimony as a proof of a fall in the value of gold, it is satisfactory to note that he has arrived at this conclusion. He finds, as might be expected, that the rise of prices has not been uniform throughout Germany; and he has ably generalised the differences which are to be found in this respect. The smallest rise has taken place in those towns which are remote from railways, while among those which are provided with railways, those which are also centres of industrial activity show a greater rise than the rest; and among these, again, the greatest rise is shown in those which are in the western portion of Germany. It is thus shown that the industrial progress of Germany has great influence on the scale of prices in the different parts of the country. Mr. Cliffe Leslie considers that the rise has been greater in Germany than in England, and I may remark, in passing, that the supposition put forward by M. Chevallier, that the adoption of a silver standard would save a country from the evils of a change in the value of money, has not been justified by experience, since, in Germany, prior to 1871, silver was the sole standard, and yet the alteration of prices has been as great, or even greater, than in England, where gold is the standard. This I say not as impugning the accuracy of M. Chevallier's reasoning, which is correct according to his premises, but as showing that the facts have not been as he expected, and that the value of silver has altered nearly as much as that of gold. In the United States a rise of wages has also taken place, and Mr. Wells, in his essay, included among the second series published by the Cobden Club (pp. 506-7), mentions, that in a manufacturing city of the north, the wages of common labourers had risen from 5f. a day in 1860 to 7f. 33c. in 1871, both rates being, of course, given in gold, and not in currency. In Victoria, as appears from Mr. Newmarch's tables, the wages of common labourers and mechanics were twice as high in 1855 as they had been prior to 1851, and though there have been many fluctuations since 1855, they have not fallen to their former level. It appears, then, that although the fall in the value of gold has not been universal, it has extended to other countries besides England, and that no explanation will be satisfactory which applies to the circumstances of England alone.

The popular method of explaining all changes in the rate of wages is a reference to the demand for, and the supply of, labour. Even Mr. Brassey, who has adduced so much evidence to show that wages depend on the efficiency of labour, accounts for all differences in the rates prevailing in different countries and periods by saying that the demand for labour is greater or less, as the case may be. But this explanation is generally nothing more than a re-statement of the fact, since an increased demand for labour means nothing more than that employers are able and willing to pay higher wages, and this is the very fact to be explained. If we ask why wages are higher in America than in England, the answer commonly given is, that labour is scarce in the former country, but what this scarcity of labour means is by no means clear. It often happens that English manufacturers are greatly in want of additional hands, and are ready to take on any who present themselves, but in such cases wages do not rise to the American rate. On the other hand, it frequently happens that American manufacturers are obliged to reduce the number and the wages of the persons in their employ, but wages do not then fall to the English rate. If, when it is said that the supply of labour is in excess of the demand, it is meant that there are many persons who are unable to obtain employment, then the supply is always in excess, both in England and in New York, as is testified by the large emigration which is constantly taking place from England to America, and from New York to the Western States of the Union. If by an excessive supply nothing more is meant than that the number of people seeking employment is such that wages are low, this is a mere statement of the fact, and not an explanation. It has often been observed that wages are higher in manufacturing than in agricultural districts, and this is thought to be explained by saying that manufactures cause a demand for labour; but this demand seems to be little more than a generalisation of the amount of wages paid. The judicious writer to whom I have so often referred, Mr. Caird, mentions that the lowest wages which he found in any part of England were paid on a large farm in a southern county, where the farmer commanded all the labour of the parish, and had not men enough to do the work required in summer. In this case the farmer required more labourers than he had, and yet wages were not high, but extremely low. Of course, when there is an artificial interference disturbing the relations between employers and employed, the rate of wages may be reduced when the former are compelled to take on more men than they require; and this seems to have been the effect of the Poor-Law in some parts of England in which Mr. Caird mentions that the farmers agreed to divide amongst themselves all the unemployed labourers of the parish, with a view of

reducing the poor rates. In these cases, as the farmers engaged more men than they required, they paid lower wages, but it was because the men had little useful work to do, or, in other words, because their labour was less efficient. Of course, when confining our attention to one trade, we must bear in mind that it is not at all times equally flourishing, and that if those engaged in it determine to continue working at a time when their products are not required by the rest of the community, they must receive less, because the service which they render is less; and though their labour may be quite as fatiguing, and may yield quite as great a product, it is less efficient as regards the benefit conferred on the rest of the people. Certainly, the table before referred to as given by Mr. Brassey, on page 38 of his "Work and Wages," shows considerable fluctuations, both in the rate of weekly wages paid to railway labourers and in the price paid for digging a given space, which can only be accounted for by reference to the state of that trade; and the same remark applies to the wages of the engineers in the Birkenhead establishment; but a general rise of wages throughout the country cannot be so explained. A rise of wages has taken place among certain classes of labourers, such as shoemakers and hatters, although there has not been any unusual activity in those trades, and though there has not been any marked improvement in the skill of the workmen, as is shown by the fact that the rise was followed by a corresponding rise in the price of their products. The rise in such instances was claimed by the operatives, not on account of the flourishing state of the particular trade, but on account of the rise of wages and prices in other trades. The wages of the miners engaged in raising the precious metals cannot rise unless they actually raise more of the metals to the surface; and, therefore, if their wages have risen at the same time as those of other classes, a clear proof is afforded that the rise is due to an increased facility of producing the precious metals. The miners who supply England with gold carry on their operations in America and Australia, and, as a great fall in the value of gold has taken place in these countries, it is to them that we must look for an explanation of the phenomenon.

We find accordingly that, as is well-known, discoveries were made about this time in America and Australia which greatly reduced the cost of raising gold. The discovery of the gold mines of California took place in 1848, while those of Australia were discovered in 1851; and these mines were found to be much more fertile than any previously known. This is shown by the high wages received by the miners, since fertility means yielding a larger return to the same quantity of labour. When Humboldt* visited Mexico, he found that the miners engaged in

* Essai Politique sur La Nouvelle Espagne, Paris, 1811, Vol. III., p. 413.

the rich silver mine of Valenciana earned five and six francs a day, while in 1859, those engaged in the gold mines of California earned nineteen francs a day; so that the labour of the latter was three or four times as productive as that of the former, since the proportion between the values of gold and silver had varied very little during the interval. The discoveries produced a complete commercial revolution in Australia, the history of which has often been told, though the connection of cause and effect has nowhere been so clearly shown as by Mr. Cairnes in an article published in "Fraser's Magazine," in September, 1859.* The circumstances of California were similar, but have not been so fully described, and I shall therefore confine myself for the most part to examining those of Australia. As soon as it became evident that gold could be obtained in abundance by anyone who chose to go and dig for it, everyone who could do so at once hastened to the diggings. All other forms of labour were suspended, shepherds leaving their flocks, and ploughmen leaving their farms, in the hope of obtaining a fortune at this new El Dorado. An old judge who was so infirm as to require to be drawn about in a chair was deserted by all his servants, and would have been quite helpless had it not been for the assistance of his own children. Great fears were entertained that the departure of the labourers would prevent any crop from being sown; but in a few months many diggers had become convinced that they were not likely to succeed at the diggings, and returned to their former occupations, but not on the same conditions as they had previously been willing to agree to. Great as was the diversity in the earnings of different individuals, it was found that an ordinary labourer with a pickaxe and a few other tools, could obtain, on the average, seven-and-a-quarter grammes of gold in a day; and, as this quantity of gold is coined into twenty-five francs, those who engaged in other occupations demanded and obtained twenty-five francs a day, or more or less, according to the more or less attractive character of the occupation as compared with that of mining. This was equivalent to a quadrupling of the rates of wages which had prevailed before the discoveries took place; but as it was only in gold-mining that labour had become more efficient, the employers could not afford to pay these higher wages without a corresponding rise of prices, which accordingly took place. As soon as the enormous prices prevailing in Victoria became known in Europe, a considerable exportation of all kinds of commodities to Victoria was at once set on foot, and, as so frequently happens when a new market is open for commercial enterprise, it continued long after the prices of articles of European origin had

* Re-published in his "Essays on Political Economy."

fallen to a lower point in Victoria than in the countries where they were produced. In 1854, accordingly, the labourers of Victoria enjoyed the advantage of receiving much higher wages, and yet being able to buy many of the things which they most wanted for a smaller sum than before; but of course this state of things could not last, and by the end of 1856 the prices of all those articles which could be imported had returned to the point which was sufficient to pay for the cost of carriage, and were, for the most part, much the same as they had been before 1851. In the meantime many of the surface diggings had become exhausted, and it had become necessary to dig deeper below the ground, and the cost of production being thereby increased, the earnings of the miners had diminished. The wages of all other labourers followed suit, and those of the sailors, which had been the most affected by the rise, were also the most affected by the fall. At the height of the gold mania it had, of course, been most difficult to induce anyone to leave a country which held out such a prospect of obtaining a fortune, and the pay of sailors engaged for a voyage to England, which had been one hundred francs a month, rose at one time to two thousand francs a month, and then fell to little more than its former rate. Of course, gold mining still held out, as indeed it still does, a chance of obtaining a large sum by a very little labour; and the amusing author of "Colonial Adventures and Experiences" mentions an instance from his own experience which may serve to illustrate the uncertainty attending this branch of industry. He had, as he tells us, joined with three other men to work a claim at the Queensland diggings, but had obtained so little in the course of several months that they determined to abandon it, and sold it for a trifle to another man, a sailor. The very next day the sailor turned up a nugget which he sold for 50,000f., and by exhibiting it to the other persons at the diggings he obtained an additional, and by no means despicable, sum of money. The author adds, that a month afterwards he met this very sailor tramping up the country in search of employment, having already gambled away the whole of this large sum. But although such prizes were still to be obtained, it was found that the average earnings of the miners had diminished, and in 1859 they were not more than 12f. 50c. a day. A comparison of the rates prevailing before the discoveries with those of 1856 shows that in this interval they had doubled. The wages of farm labourers being partly composed of rations are not so easily compared, but as they received in money from 11f. 25c. to 15f. a week at the former period, and 31f. 25c. at the latter, it would seem that their wages were about doubled. The wages of mechanics, such as masons and blacksmiths, being all paid in money, exhibit very clearly the proportion in which they had risen, having been,

at first, from 7f. 50c. to 8f. 75c. a day, and having risen too from 15f. to 17f. 50c. a day. The prices of garden and farmyard produce had more than doubled in the same period, so that part of the rise in their case was owing to the increased difficulty of production, occasioned no doubt by the great immigration into the country which followed on the discoveries, and which rendered it necessary to resort to less favourable soils than those formerly occupied, in order to supply the wants of the increased population. Subsequently to 1859 the yield of gold from Australia fell off, but increased again in 1871 and 1872, though it did not return to its former level, and the rates of wages prevailing in 1870 were lower than those of 1856. In 1856, married couples employed in agriculture had received from 1,875f. to 2,125f. a year, besides rations, but in 1870 they received only from 1,250f. to 1,625f. a year with rations as before, and the masons' wages had fallen from 15f. and 17f. 50c. a day, to 12f. 50c. and 13f. 75c. a day, and the wages of other classes had also fallen. Taking the wages of masons as a standard it would seem that in the period 1851-70 wages had risen 66 per cent., or, in other words, the value of gold had fallen 40 per cent. The table previously given with regard to the rise of wages in England showed a rise of 30 per cent., and a further rise of 36 per cent. is therefore required to equalise the effects of the gold discoveries upon the value of gold in Australia and England. Before 1851, money-wages were higher in Australia than in this country, and, of course, the discoveries have no tendency to produce an actual equality in the rates prevailing in both countries, but only to raise them to such an extent that the labourers shall be paid in proportion to their efficiency. When the average of England shall have risen from 1f. 98c. to 3f. 30c. a day, the full effect of the Australian discoveries so far as England is concerned will have been produced, though of course this result may be afterwards disturbed by any future discoveries in Australia, California, or elsewhere. In California the rates of wages, though higher than in Australia, are less than half of what they were in 1853-4; those of bricklayers, for instance, having fallen from 52f. to 25f. a day, and those of stonemasons from 52f. to between 22f. 50c. and 25f. a day. As I am not aware what was the usual rate of wages in California before the discoveries, which, indeed, were almost contemporaneous with its first settlement, I cannot tell how much they have reduced the cost of obtaining gold in that country, but, at all events, these figures show that the fertility of its mines has greatly diminished.

The cheapening of gold in the countries which produce it has slowly, but surely, affected its value in England and other countries. Its first effect was to cause an increased exportation of manufactured articles from

England, and this increased quantity could not be produced except at an increased cost, which in its turn necessitated a rise of prices. Those manufacturers who were still able to produce their goods at their former cost profited by obtaining the higher prices which their less fortunate competitors were obliged to demand, and their workpeople demanded and obtained a share in the benefits in the form of increased wages. A reaction did indeed take place in consequence of the imprudent and excessive exportation to Australia, and the wages of some classes of workmen underwent a temporary reduction. The memorable strike of the cotton-spinners of Preston, in 1853, was directed against a proposed reduction of wages, and proved unsuccessful, as, indeed, such strikes usually do. Notwithstanding the interruptions which the upward movement of wages has experienced, it has, on the whole, continued, and has spread from the workmen engaged in manufactures to those in the building trade, to railway labourers, and to those employed in agriculture. As the people of America and Australia have been able to obtain gold with less labour, they have been willing to part with it in exchange for less labour; and, accordingly, the money-wages of those engaged in producing articles to be exported to those countries have risen, and the labourers in other trades have obtained a proportionate rise, in order that all kinds of English labour might be remunerated according to its efficiency. A longer time has been required to effect a considerable reduction in the value of gold in Europe than was necessary in Australia, and the reasons why this was so are not far to seek. The quantity of gold which Australia itself required was so small that a few months were sufficient to quadruple the amount previously circulating there, and thus to increase the quantity of money in proportion to the fall in its value at the diggings. If all the gold required in the world could be produced in a single year, no more than a year would be required to reduce its value in all countries in the same proportion as it had been reduced in the mining countries themselves; but gold is so durable that a very small annual addition is necessary to maintain the existing stock, and the difficulty of producing it is so great that the world could hardly spare a sufficient number of labourers to raise the whole stock in a single year. The total quantity of gold in possession of the people of Europe and America in 1848 has been estimated as equivalent to fourteen milliards, and in order that this sum should be increased in proportion to the fall in the value of the metal, an amount equivalent to nine milliards or more would be necessary; while the whole supply received from California, Australia, and Russia in the period 1848-56 did not quite amount to half this quantity. All other things remaining the same, a greater quantity of gold coin would be required in any country in exact proportion

as its value fell, since money is only wanted for the purpose of exchange; and if a society exerts the same amount of labour, and exchanges all its products as before, their value being the same, a greater quantity of coin is necessary to be exchanged against them when the value of the coin has diminished, and vice versa. Several causes have, however, been in operation which have tended to render necessary a still greater increase in the quantity of gold coin in Europe and America than would have been sufficient to compensate the fall in its value. A great increase of population has taken place, and this in itself renders a greater quantity of coin necessary, since the number of labourers has increased, and, consequently, the total value of the commodities produced. The slight fall which has taken place has been sufficient to cause gold coin, in many cases, to take the place of silver. Thus, for instance, in 1850, as Mr. Caird tells us, a county in which a labourer's wages were as high as 12f. 50c. a week was the exception, while, at the present time, one where this is not the case, has become the exception in its turn. This sum is the value of the smallest gold piece which is coined in England, the half-sovereign; and as the labourers' wages are paid weekly, it is evident that gold coins must often be used where silver alone was formerly required. A substitution of gold for silver, on a much larger scale, was occasioned by the mint regulations of those countries which maintained a double standard, *i.e.*, where gold and silver may be used indifferently, at the pleasure of the debtor, to discharge debts of any amount. Where this system prevails, it is, of course, necessary that the Government should fix the proportion between the values of gold and silver, and in most countries where this had been done, gold had been underrated, having been generally assumed to be fifteen-and-a-half times as valuable as silver, while the true proportion was more nearly that of fifteen-and-three-quarters to one. The Californian discoveries soon produced a slight change in the proportion previously subsisting between the values of the two metals, and a kilogramme of gold was found to be worth no more than fifteen-and-a-quarter kilogrammes of silver. The Dutch Government, fearing that a great depreciation of gold was about to take place, thought to save its subjects from the evils consequent on a change in the value of money by expelling gold from its circulation, and enacting that all large debts should be paid in silver; and this step accelerated the depreciation by bringing a large quantity of gold into the market. In France, where the proportion had been fixed at 15½ to 1, it became apparent in 1850 that debtors could more easily discharge their debts by purchasing gold, and getting it coined at the mint, than by paying them in silver coin. A kilogramme of silver (900 fine) had been coined into 200 francs, but would formerly sell for no more than

197 francs in gold coin, but in 1850 it would sell for 203 francs, although when coined it would only pay 200 francs, as before. It was, therefore, the interest of the bullion leaders to collect silver coins, more especially the new ones, to melt them down, and to sell the ingots at the rate of 203 francs a kilogramme in foreign countries; and they did this to such an extent that silver coin almost disappeared from France. In 1848 that country had possessed two-and-a-half milliards of silver, and only seventy-five millions of gold coin, but in a few years the latter had increased to two milliards, and the former had diminished by an equal, or, at least, a considerable amount. The French Government found it necessary to coin gold pieces of the value of five francs, being smaller than any gold coin which had been previously issued, in order to supply the place of the silver pieces of the same amount, which were, and are, constantly melted down as soon as issued. This large absorption of gold into the French currency has acted, as M. Chevalier expresses it, as a Parachute to retard the fall in the value of gold, since it has caused a larger quantity to be required than Australia and California could at once supply, and the inferior mines of Hungary, Russia, &c., have determined the value of the metal; and although some were abandoned, it was not necessary to cease from working all those which were less fertile than those newly discovered. Belgium, Switzerland, and Italy, were placed in a similar position to that of France, and experienced a similar substitution of gold for silver in their currency, and the Californian discoveries accelerated the same process which had already commenced in the United States. Gold had, in that country, been reckoned as sixteen times as valuable as silver, which was, even then, an exaggerated estimate, and it was gradually taking the place of silver in the currency; but when its value fell to no more than fifteen-and-a-quarter times that of silver, the disappearance of the silver coin produced so much inconvenience that the Government was obliged to issue small gold pieces of the value of 5f. 20c. to take the place of the silver coins of the same amount. In Spain, Russia, and other countries there was also a considerable substitution of gold for silver coin, and in 1871, Germany, which had so long maintained a silver standard, determined to follow the example of most civilized nations by admitting gold into her circulation on such terms that it would be preferred to silver in all large payments; and for this purpose it was necessary that gold coin should be struck to the amount of two milliards. On the other hand, other causes have been in operation which have tended to reduce the quantity of gold coin in the world. The action of the Dutch Government has already been referred to, and a similar policy was pursued by the Government of India. In 1841, an order had been issued

enjoining all Indian officials to receive gold coins whenever tendered; but in 1852 this order was rescinded as far as regarded large payments. It is understood that the Indian Government took this step because gold coins had been offered in rather larger quantities, and fears were entertained that the Government would be unable to dispose of them again; but as, in the Indian coinage, gold and silver are valued at the rate of 15 to 1, while in the rest of the world they exchange at the rate of $15\frac{1}{4}$ to 1, it is not likely that gold coin would have been to any great extent preferred to silver for the payment of taxes or other obligations. There are, again, many instances in which paper has been substituted for gold, and the most notable one of the kind is afforded by the introduction of "greenbacks" into the United States during the civil war; the use of which has continued for many years since the restoration of peace. But although the introduction of a forced paper-currency renders a smaller quantity of coin necessary, it by no means enables the people to dispense with coin altogether; and the official returns of the United States show that the Government has always a large stock of gold in the treasury, and the Customs duties are still required to be paid in gold. In other countries which have no inconvertible notes, there is a tendency to an increased use of bank-notes, cheques, and other substitutes for coin; but unfortunately, the meddling propensities of legislators have hitherto greatly impeded the development of this system. In England, for example, the foolish Bank Acts of 1844 and 1845, have prevented an increase in the quantity of bank-notes, except on condition of an increase in the metallic reserves of the banks which issue them; and there is probably no country in the world in which more bank-notes would not be used if the banks were allowed to manage their own business, and to issue as many as their customers required. On the whole, the causes which have tended to increase the consumption of gold have greatly preponderated over those which have tended to diminish it; and while the total stock of gold in the world was nearly twice as great in 1871 as it had been in 1848, its value, as has been seen, had not fallen in England more than 25 per cent. The total stock, as before mentioned, was equivalent to 14 milliards in 1848, and had been increased by $12\frac{1}{2}$ milliards by the end of 1871; and most of this large addition has been absorbed by the currencies of Continental Europe and by Asia.

A nearly equal depreciation of silver has taken place during the same period, and the mere substitution of gold in its place, which has been already referred to, would be enough to cause a fall in its value. The silver market was so abundantly supplied from the currencies of France and other countries, that a smaller quantity would, other things being equal, have been required from Mexico and the other countries which

produced it. This would cause some of the inferior mines to be abandoned, and the value of silver would consequently fall. In fact, however, the annual production of silver increased from 200,000,000f. to 300,000,000f.; and this is explained by the discovery of abundant quicksilver mines in California, which, by reducing the cost of quicksilver, reduced the expense of extracting silver from the ore, and, consequently, reduced its value also. The large quantities of silver which were expelled from the circulation of Europe were for the most part sent to India and China; and it has often been made a matter of wonder that they could have been absorbed by those countries, and, from sheer inability to suggest any other explanation, it has been supposed that they have been hoarded. There seems, however, to be little real ground for such a supposition, and I would hazard the conjecture that they have really been used to fill the void occasioned by the abandonment of some silver mines in the interior of China. Sir John Davis* mentions that large quantities of silver were formerly brought down to Lintin and exported to India, and that this showed that considerable sources of supply existed in the Empire. A Russian writer, Otreschkoff, quoted by Mr. Newmarch, (history of prices, vol. 6, p. 762) estimated in 1856 that the annual production of silver in China was no more than 4,500,000f., and describes the Chinese Government as opposing every obstacle to the working of the mines. It would seem that whereas China used formerly to produce enough silver to supply its own wants and those of India, it now imports silver from Europe and America, and that India has to pursue the same course. Perhaps the obstructions of which Otreschkoff speaks would not be so effectual if it were not that China finds it more profitable to import silver from abroad. While the gold mines of Russia were the most productive in the world the Russian Government obtained a revenue from a tax which it imposed upon them, but the competition of California rendered them unable to submit to it, and as the Russian Government refused to remit it, many of the mines were abandoned. It is not surprising that a very large quantity of silver should be required to supply the wants of India and China, two countries which are supposed to contain half the population of the Globe; and, in both of which, silver performs most of the functions of money. Mr. Newmarch, in the able work which has been just referred to, and from which much of the information made use of in the present chapter is derived, estimates the whole quantity of silver existing in India in the form of coin and plate, as equivalent to ten milliards, and that a hundred million francs' worth are required to replace what is consumed by the wear and tear of a single

* The Chinese. London: 1844. Vol. III., p. 137.

year. If the value of silver has undergone, as there is every reason to suppose that it has done, a slight reduction, a much larger quantity would be required every year in order to increase the amount in proportion to the fall in its value. What may be the amount existing in China, is of course unknown, but it must be very large; for, although the Chinese can scarcely be said to possess a coinage of their own, they use silver ingots and Mexican coins, and they make little use of bank-notes, bills, or other modes of substituting paper for coin in carrying on their commerce, which is certainly considerable. I have already referred to the letter of "F. G. S." in the "Times" of June 19, 1872, stating, that during the past ten years the percentage of metal contained in the various ores of gold, silver, copper, nickel, &c., shows a marked and uniform increase over those brought to the refineries during the previous decade. He does not tell us what is the cause of this difference, the explanation of which is probably to be found in some improvement in the processes of smelting and refining; but whatever the cause may be, it is one which must tend to lower the value of gold and silver. When the gold discoveries were first announced, it was supposed by some persons that gold would in time become as cheap as silver, and there is, of course, nothing impossible in such a consummation; and if Australia had been excluded from intercourse with the rest of the world, such a state of things might actually have prevailed there, since gold is found there in abundance, while silver is very scarce. It has already been mentioned that in Japan, before the Americans obtained permission to trade there, gold was only worth four times its weight in silver. At present, the tendency seems to be for silver to fall more rapidly than gold.

The consequences of a change in the value of the precious metals are so numerous and important that M. Chevalier has devoted a separate treatise* to the examination of them, and yet he does not discuss the whole subject, but confines himself to those effects which are common to the whole world, and does not deal with the changes introduced into the commercial relations previously existing between different countries. It sounds paradoxical to inquire whether mankind have benefitted by discoveries which have enabled them to procure these metals with less labour, and yet, as coin is only used as the medium of exchange, for which purpose portability is an advantage, the cheapening of the metal of which coin is made renders it necessary that people should carry a greater weight in order to exchange commodities of the same value. In England, therefore, the cheapening of gold has been, in some respects, a

* De la Baisse probable de l'Or: des Conséquences Commerciales et Sociales qu'elle peut avoir, et des mésures qu'elle provoque. Paris: 1859.

disadvantage, by increasing the labour of transporting it from place to place; while in those countries where it has taken the place of silver, the people have gained by the substitution of the less bulky metal for the more bulky one. They have benefitted also by the general adoption of that metal which has long been the sole standard of value in England, which makes it more easy to settle the balance of their payment due to or from England; and this is a considerable advantage, considering the great extent of English commerce with those countries. It does not matter so much whether gold or silver be generally used, as that the same metal should be employed in all countries, and the inconvenience be thus avoided which results from the fluctuations in the gold price of silver and the silver price of gold, which render it uncertain how much money a merchant in one country may require to discharge a debt in another. As the advantage of uniformity in this respect has been accompanied by the adoption of the more portable metal, there has been, on the whole, a considerable assistance afforded to commerce. In so far as gold and silver are used in manufactures there has been a gain, since articles made of these metals can be procured with less labour, although it does not follow that they can be obtained for a lower price. As Mr. Cairnes has pointed out in a review* of M. Chevalier's work, a fall in the value of gold would tend to raise the price of a gold snuff-box, for though the price of bullion is unaffected by the change, yet the wages of the workmen employed in making the box are higher, and the price, in so far as it depends on the workmanship, must rise in proportion. The prices, therefore, of articles made of gold and silver, rise in proportion to the amount of labour expended upon them, and their value falls in so far as it depends on that of the raw material. The most serious effects of the change are those which are implied in a disturbance of all contracts extending over a term of years, and expressed in sums of money. Of these the most important are the obligations of a State towards the holders of its funds, and those of landlords towards their mortgagees. In all these cases the creditor loses one-fourth of what he formerly received, and the debtor gains to the same extent. The same sum of money is paid as before, but its value is one-fourth less; and the question naturally arises whether the creditor is entitled to any compensation for the loss which he suffers. The obvious answer to this question is, that the creditor can only claim an increase in his dividends when the value of gold falls if he has agreed to submit to a diminution when its value rises, and as this has never been done in the case either of fundholders or of mortgagees, their claim to compensation in the present

* "Edinburgh Review," July 1860, p. 18. (Re-published in his Essays).

case will not bear examination. They did not ask to receive every year commodities of an equal value, but an equal quantity of gold, and the value of this metal frequently varied before 1850, as it has done since that time. As regards the fund-holders, it may be remarked that the larger portion of the National Debt of England was accumulated during the last war with France, and that during that period the value of gold was at one time less than it is now, since Arthur Young gave the average rate of agricultural wages in 1810 as 3f. a day, or about one-sixth higher than in 1869-70. If the change had come suddenly, and had been completed in a single year, a claim for compensation might be reasonably set up, but it has been very gradual, and the fund-holders have had ample time to find other investments for their money; and the immediate effect of the gold discoveries was to confer a benefit upon them, since the large quantities of gold deposited in the banks lowered the rate of interest, and raised consols to par, a height which had very seldom been attained before. The people, as a whole, have neither gained nor lost, for what the fund-holders have lost the tax-payers have gained, and what the mortgagees have lost the mortgagers have gained; but a transfer of such a kind, and on so large a scale, implies a great deal of individual suffering. A large proportion of these securities are held by trustees for the benefit of widows and children, and other persons, who are incapable of working to support themselves, for whom, therefore, there is no relief for what amounts to a reduction in their often scanty incomes. A considerable amount is held for the benefit of charitable institutions, but in their cases a diminution in the value of their endowments is rather a public benefit than otherwise, since it gives the present generation an opportunity of revising the judgments of their ancestors. Ancient endowments are apt to become, after a lapse of time, either injurious, or, at least, useless, but interference with their management is always a matter of difficulty; and a practical diminution of their power of mischief, effected by the operation of natural causes, is a public advantage. In those few cases where a charitable endowment continues to do good service, the people are able to compensate its losses by further donations, which their practically increased incomes enable them to afford. The transfer is made from the non-industrial to the industrial classes of society. The labourers, as a whole, are in the same position as before, although they suffer during the period of transition, which is effected, as M. Chevalier says, not by a continuous flow, but by a succession of jumps. People are so much under the dominion of habit that it is always difficult to resolve on a rise of price, and still more so to resolve on a rise of money-wages. When the prices of some articles, and wages in some trades, have risen,

labourers in other trades continue, for some time, to pay higher prices, without asking for an increase in their own wages; and when they do so at last, they say that they must ask for more because provisions, etc. are so dear, and this shows that they must have suffered some sacrifices before resolving to demand a rise. The capitalists, as a body, are unaffected, for the higher wages which they have to pay are compensated by the higher prices of the articles produced; but in their case also the fluctuations of wages and prices entail considerable losses on individuals, and the strikes to which the readjustment of the scale of wages has given occasion have inflicted great hardships on large classes of employers in all parts of England. In two of the so-called professions, the medical and the legal, wages are determined, not by competition, but by custom; and as the scale of fees has not altered, there has been a practical loss on the part of physicians and barristers. A physician still receives his old fee of 26f. 25c. for a single visit, and this is now worth one-fourth less than formerly; but it is by no means certain that the average annual income of this class has not increased in proportion to the fall in the value of money, since physicians, though they cannot diminish the amount of a single fee, yet often decline to receive one, and by accepting one more often than formerly, they have it in their power to increase their total receipts, and they have every motive to do so in the circumstances here under consideration. The barrister's fee, though its minimum amount is the same as the physician's, may be increased to any amount; and the cheapening of money by raising the incomes of other classes, enables litigants to pay more to barristers, who, in their turn, can easily make their wishes felt by declining to undertake, or by performing badly, any business for which they are not offered sufficient remuneration.

The effect of the discoveries has been to diminish the command of the labour of others which the possession of a given sum of money secures to its owner; but, as the progress of industry has lowered the cost of producing other articles besides the precious metals, there are many whose prices have not risen, and it may be thought that the present inquiry is unprofitable, and that what people really want to know is whether a given sum of money will procure the same, or a smaller amount of comfort to its possessor. Adam Smith anticipated a similar objection, and I cannot do better than quote the remarks with which he concludes his elaborate review of the changes which had taken place in the value of silver. "The same quantity of silver, it may perhaps be said, will in the present times, even according to the account which has been here given, purchase a smaller quantity of several sorts of provisions than it would have done during some part of the last century; and to ascertain whether

this change be owing to a rise in the value of those goods, or to a fall in the value of silver, is only to establish a vain and useless distinction, which can be of no use or service to the man who has only a certain quantity of silver to go to market with, or a certain fixed revenue in money. I certainly do not pretend that the knowledge of this distinction will enable him to buy cheaper. It may not, however, upon that account be altogether useless."

After pointing out the utility of knowing whether the rise of prices is due to a fall in the value of silver, or to an increased difficulty of producing the articles themselves, he continues :—"It may, too, be of some use to the public in regulating the pecuniary reward of some of its inferior servants. If this rise in the price of some sorts of provisions be owing to a fall in the value of silver, their pecuniary reward, provided it was not too large before, ought certainly to be augmented in proportion to the extent of this fall. If it is not augmented, their real recompense will evidently be so much diminished." (Book I., chap 11.)

As the wages of common labourers have risen one-third since 1850, the salaries of all those employed in the public service should be raised in like proportion; of course, with the reservation inserted by Adam Smith, provided they were not too large before. This applies equally to the humblest and to the most exalted among them; to the policeman and the letter carrier, to the prime minister and the commander-in-chief. The salaries of all of them are, or ought to be, fixed at such a rate as to compensate the greater or less inconvenience and labour required, as compared with the pay received from private employers. If a fall in the value of money renders the scale no longer appropriate, if the clerks or other public servants receive the same pay, while those in private employment receive increased salaries for doing similar work, an increase in their salaries is required quite as much in the interests of the public as in that of the officials themselves. They have entered the public service because they thought that the pay which was offered was as much as they could obtain from private employers, regard being had to the kind of work required, and the advantages attending their position as servants of the state; and now that the elements of the calculation have altered, they are entitled to ask that it should be made over again without exposing them to the hardship of resigning the posts in which they have spent their lives. If this is not done the public service will be injured, partly by more frequent resignations of such as can obtain employment elsewhere, and the inconvenience which such changes inflict on the service, and partly by the indisposition of those who consider themselves aggrieved to do more work than they can possibly help. Even now, it is said that the puisne judgeships are often declined by

successful barristers on account of the pay being insufficient, and if this is the case with these highly-paid offices, a revision of official salaries must indeed be necessary. A rise in the price of coals, such as that which took place in 1872, and which amounted to 50 per cent., which is consequent on the increased difficulty of raising coal, affords no ground for an increase of salaries, because it affects all classes alike, and, if it had been foreseen at the time when the officials entered the service, they could not have provided against it, for they would have suffered quite as much if they had entered the service of private employers. In connection with this subject I may refer to the attempt which has been made by a certain party in the House of Commons to enforce retrenchment in the national expenditure by restricting it to a fixed sum of money. Honourable as are the motives of those who take this course, they only weaken their cause by adopting it, for it is impossible that when the value of money has fallen the same sum can be sufficient to obtain the same quantity of labour. Mr. (now Sir William) Harcourt, in his speech made in the House of Commons, on February 18, 1873, found fault with the ministry for having allowed the national expenditure in the year 1872 to exceed by 75,000,000f. that of 1866, and in answer to the plea that the prices of many articles required by the Government had risen, he urged that steps ought to have been taken to reduce the expenditure in other directions. An Economist must read with astonishment such a singular argument, for on what rational principle can it be contended that the same sum of money which was sufficient in 1866 must have been sufficient in 1872 ? Not only had population increased in the interval, not only had commerce extended itself in a greater proportion, but the Government had undertaken new duties, and notably had devoted a larger sum to defray the expenses of popular education, and, in addition to all this, a marked fall in the value of gold had taken place in the year 1872. It would be thought strange indeed if anyone were to contend that the people of England ought to be satisfied with the same quantity of food which they had found sufficient seven years ago, or that a manufacturer who had found it profitable to increase the number of his furnaces should still content himself with his former quantity of coal. Yet such a contention would not be more surprising than that put forward by Sir William Harcourt. The value of money has fallen, and the Government must, therefore, pay more to those whom it employs, and Sir William Harcourt replies that in that case it ought to employ fewer men. The value of coal, of iron, and of some other articles of which the Government requires a large quantity has increased, and Sir William Harcourt maintains that the Government ought to buy smaller quantities. This course may

be suitable to a private individual, but the Government has to provide for the defence of the country, and the same number of ships and guns are required whether they be cheap or dear. The increase of which he complained only amounted to 5 per cent., and the increase in the incomes of the people during the same interval was certainly quite equal in extent. They were, therefore, quite as well able to meet the increased burdens as they had been to bear the lighter ones. It is true that the increased cost of coals had inflicted considerable suffering on the middle and lower classes, and this constituted a grave argument for reducing expenditure, but this argument could derive no additional support from the fact that a smaller sum of money had been found sufficient in 1866 than was spent in 1872.

The gold discoveries have reduced the value of that metal in those countries where they took place to a greater extent than in the rest of the world. They have, consequently, given rise to some peculiarities in the commercial relations of Australia and California with the rest of the world, which have been pointed out and explained by Cairnes in "Fraser's Magazine" of September. 1859, and January, 1860.* Humboldt contends that the possession of gold or silver mines is not prejudicial to the agriculture of a country, and he points to the fact that land is cultivated in the vicinity of the mines for the sole purpose of supplying food to the miners as establishing his theory. Cairnes, however, who has quoted and commented on this remark of Humboldt's, points out that the possession of mines does induce the people to turn their attention to them rather than to the raising of agricultural produce for exportation. Humboldt himself observed that the people of Mexico exported very little of any other commodity than silver, and he attributed this to a mistaken idea of their true interests prevailing among the people. But it is an error to suppose that a people can continue for centuries to export a particular article when they produce another one to export which would be more profitable to them, and although Humboldt is right in saying that wealth does not consist of money alone, he is wrong in supposing that the wealth of Mexico is not increased by means of its exportation of silver. The silver itself is not its wealth, but the foreign commodities which are exchanged for it form a great part of the wealth of the Mexican people. California and Australia have continued, since the discoveries, to obtain most of their imports in return for gold, and here also the possession of abundant mines has tended to develope mining enterprise at the expense of other branches of industry. California, though possessing extensive forests,

* Re-published in his Essays.

imports timber from Vancouver's Island; and Australia, though possessing almost unrivalled pastures, imports, or used to import, butter from Ireland. Boots and shoes are exported from England to Australia, although leather can be procured in Australia with less labour, and boots can be manufactured with at least as little labour as in England. Though they could be produced in Australia with less labour, they cannot be sold at so low a price because money-wages are higher, not merely absolutely, but relatively to the efficiency of the labourers, and the people of California and Australia obtain, by importing foreign commodities, an advantage of the same kind as that enjoyed by a landlord who possesses a superior farm, and they, in fact, receive a rent from the rest of the world for the use of their abundant mines. This advantage in their position has given a great stimulus to emigration to those countries, and, consequently, to their industrial progress, which has been remarkably rapid. During the ten years, 1840-49, the total number of emigrants to Australia amounted to 126,937, while in the next decennial period, 1850-59, the number swelled to 498,537, that is to say, very nearly quadrupled. The population of Australia increased from 503,451 in 1850, to 1,165,424 in 1859, that is, more than doubled, while that of Victoria, the principal seat of the discoveries, increased nearly sevenfold during the same period, having risen from 77,345 to 530,202.* The remoteness of Australia had previously proved a great obstacle to its colonisation from Europe, but the attraction of the gold mines was sufficient to overcome all difficulties, and the discoveries have powerfully contributed to the extension of civilisation in this new quarter of the globe. The effects of the discoveries in California have been even more beneficial to mankind, since they have prevented the establishment of slavery in the Pacific States of the American Union. The cession of California was extorted from Mexico by the Government of the United States, because the then dominant slavery party desired to extend slavery into that region, and wished, and intended, to form it into a Slave State. The gold discoveries, however, were made almost as soon as the cession had taken effect, and the news attracted so large a body of miners from the Free States, that the proposal to introduce slavery was rejected by the people. The admission of California into the Union as a Free State disturbed the balance which had hitherto been even between the Free and Slave States, and by turning it in favour of the former, paved the way for that dissatisfaction on the part of the latter which produced the civil war, which resulted in the abolition of slavery. As England engrosses the chief part of the foreign commerce of the United States and of Australia,

* Histoire de L'Emigration. Par Jules Duval. Paris 1862, pp. 305-315.

it has received most of the gold exported from them; and when the importation had produced a rise of wages, and of the prices of many articles, it became profitable to import goods from the Continent, and to export gold in return; so that England has performed the part of an agent in distributing the new supplies of gold throughout the commercial world. In this way England received during the period 1858-71, $4\frac{3}{4}$ milliards, of which it is known that three milliards, and it is supposed that a larger quantity, have been re-exported, partly to the Continent, and partly to India and China. During the same period more than a milliard was sent direct from the gold-producing countries to India and China, and the rest of the $7\frac{1}{2}$ milliards, which were raised in the whole world during this period, have been absorbed, partly by the Continent, and partly by the gold countries themselves.

CHAPTER VII.—TRADES' UNIONS AND CO-OPERATION.

OBJECTS OF TRADES' UNIONS — THEIR ORGANISATION—EXTENT OF THEIR POWER—THEIR UTILITY—CO-OPERATION—INDUSTRIAL PARTNERSHIP—GENERAL REFLECTIONS.

THE rise of wages which has been described in the last chapter has not taken place without attracting a large share of public attention, and there is one explanation which has been so often, and so ably put forward to account for it, as to require an examination at some length. It has been frequently asserted that the rise in question has been brought about by the action of those combinations among the workmen which are known by the general name of trades' unions, and the discussion of this question has been in the highest degree advantageous to the progress of Political Economy. Among the works to which this controversy has given birth, two stand pre-eminent, one on either side of the question; that of Mr. Thornton, "On Labour," in which it is contended that trades' unions can, and do, raise wages, and Mr. Brassey's "Work and Wages," in which it is contended that they cannot, and do not, raise wages to any higher level than free competition would establish. It might be sufficient, as far as concerns the discussion in the last chapter, to point out that the fall in the value of gold was deduced from the rise in the wages of agricultural labourers, and that no unions were formed among this class until after the latest year to which the figures there given relate. But the question is of such importance, and its solution is so necessary to a right understanding of the laws which govern wages, that it deserves an examination on its own account. A trade union is a society of workmen formed for the object of supporting its members when, from some cause or other, they are out of employment. The rules of different unions differ considerably; some of them granting an allowance to members in case of sickness, some of them sanctioning a payment for the funeral expenses of a member or his wife, while others are confined to the support of men on strike. There have always been temporary combinations of workmen for the purpose of assisting one another during the continuance of a strike, and such associations were referred to by Adam Smith, and one is even mentioned as having been formed in the 14th century. But it was not till the present century that workmen began to feel the necessity of forming a permanent orga-

nisation for conducting their disputes with their employers, and for succouring one another in cases of unavoidable distress; and the rapid growth of these societies during the present century, has, no doubt, been brought about by the great extension of our manufactures, and by the great and frequent vicissitudes which this extension has entailed. It so frequently happens that a particular trade is depressed in one town while it is flourishing in another, that those who are engaged in the same trade have become sensible of the advantages which they might derive from an organisation which should enable them to remove from a place where their labour is not required to one where it is; and where this cannot be done, should relieve their most pressing wants by a moderate allowance paid out of a fund to which they have themselves contributed when fully employed. As soon as a society has agreed to give an allowance to its members when out of work, it becomes almost necessary to determine what is the proper rate of wages which its members ought to receive while working at the trade to which they belong; since, if a man who is out of work is offerred what is no more than half the usual wages of the trade, it cannot be said that he has a fair offer of employment; and he may justly call on the society to give him an allowance just as if no such offer had been made to him. These societies, therefore, generally fix a minimum rate of wages, less than which its members are at liberty to refuse without forfeiting their claim to an allowance from the society. As it frequently happens that the ideas entertained by the leaders of the society as to what is the proper rate of wages do not coincide with those of a particular master on the same subject, a society often finds itself obliged to support some of its members who, though perfectly able to obtain employment if they choose, will not consent to the terms which are offered by a capitalist. Thus, by a natural transition, a society which has been formed to obtain objects which meet with universal approval is transformed into one of those which are the subjects of so much obloquy, the feared and hated trades' unions. Such has been the origin of some of the oldest and most successful trades' unions, which still devote the larger part of their fund to the charitable purposes for which they were first instituted, and apply only a small sum to the support of members engaged in strikes. But other unions have had a less peaceful origin, having been the direct results of extensive or unsuccessful strikes. The intense misery which a protracted strike on a large scale has so often occasioned to those engaged in it, has had the effect of teaching mechanics and others the necessity of forming an extensive organisation so as to provide, not merely against temporary loss of employment in an individual case, but against even so great a calamity as the closing of all the workshops in a single town, or in half a county;

and the failure of a strike has thus had the effect of mitigating the sufferings of a succeeding strike by leading to the formation of larger unions, until some have been formed with branches in all parts of England, and with some even in foreign countries. Unions which have had such an origin have formed the natural rallying points round which workmen have gathered whenever they have been engaged in a dispute with their employers, and have thus been led to take cognisance, not merely of disputes regarding the rate of wages, but also of those which have related to the hours of labour, the mode of performing a particular kind of work, or matters purely local or personal. The antagonism in which they have been placed towards the employers has rendered it necessary for them to exercise more authority over their own members than a mere benefit society has any occasion to do, since their success in a struggle depends upon their power to deprive employers of the means of procuring men; and they, accordingly, enact stringent rules to prevent their own members from working on conditions which they do not approve. As these rules frequently cause individual hardships, the unions have often been regarded as tyrannical societies, whose object is to prevent workmen from making the best bargain which they can for themselves; but this is but a short-sighted view, since they are formed by the workmen themselves to obtain their own advantage, and in this, as in other cases, it is frequently necessary to submit to a little suffering to obtain a greater and permanent good.

The organisation of trades' unions is extremely simple. The members are required to pay a weekly subscription, which only in a few cases amounts to so much as a franc, and is generally much less. All the officers of the society are elected by universal suffrage of the members, and none of them, except the secretary, receive a sufficient salary to exempt them from the necessity of labouring at their trade. All the members are required to serve in turn upon the committees which manage the affairs of the society, and while so employed they receive a small compensation for their trouble. In the larger unions, like the amalgamated societies of engineers and carpenters, which have numerous branches, the affairs of each branch are, for the most part, conducted by the local committee; but a strike cannot be entered on unless leave has been obtained from the central committee, which holds its meetings in London, or whatever place may be chosen for the head office. The secretaries of the different branches are required to make monthly reports to the head office with regard to the state of trade, and of the society in their respective districts; and thus the central executive committee is furnished with the means of taking a general survey of the condition of the trade throughout the country. The central executive

has no power to originate a strike at any of the branches, but can only sanction, or veto, a proposal on the part of a branch committee to engage in a strike ; and the evidence of the secretaries who were examined before the Trades' Union Commission, shows that such proposals are more often vetoed than sanctioned at head-quarters. The secretary is usually elected for one year, but is re-eligible, and generally re-elected ; and, indeed, considerable hardship would be inflicted upon him if he were not, since it is necessary for him to abandon his trade during his term of office, and this must more or less unfit him for resuming his former occupation when his time has expired. Obviously, too, it is an advantage to the society to retain the services of an experienced man who has shown himself fit for his post. The secretary, however, although he is pretty sure to obtain considerable influence in the society, is always responsible to it, and is constantly exposed to the danger of dismissal if he ceases to conduct himself in a manner approved of by the majority of the members. The weekly subscriptions of the members are sufficient to defray all the ordinary expenses of the society, such as the allowances in case of sickness, the pay of its officers, correspondence, printing, &c. But when a strike on a large scale is undertaken, an additional levy is made upon all the members who are in employment, for the purpose of maintaining those on strike. The allowance which the latter receive seldom amounts to more than a third of what they would earn if they could obtain employment ; so that the assistance of the society can hardly be said to afford any encouragement to idleness, more especially as they forfeit their allowance by refusing to accept employment when the conditions are approved by the committee of the society. In some cases a society grants money in aid of a strike in some other trade than that to which its own members belong, but this is only an exceptional case, when the strike has excited much public attention, and is of such a nature as to enlist the sympathies of the great body of the working classes in its favour.

In order properly to discuss the vexed question whether trades' unions are able to raise the rate of wages, it is first necessary to determine what is meant by their ability to raise wages. Unfortunately, some even of the ablest writers who have engaged in this controversy seem to have done so without any clear notion on this subject, and to have thought that the mere fact that wages have risen since trades' unions were first established, is sufficient to prove that the unions have been the cause of the rise. Mr. Harrison, in his article on "The Good and Evil of Trade Unionism,"* enumerates a long list of strikes which have been successful,

* "Fortnightly Review," November, 1865.

and says, that he leaves it to those Economists who first frame theories and then make the facts to fit them, to explain how the facts which he cites are to be reconciled with the theory which maintains that combinations of workmen have no power to alter the rate of wages. Mr. Thornton in discussing the same question, observes, "A review of the industrial warfare of this country during the last forty or fifty years will show, on the one hand, that when differences between masters and men have led to very severe and protracted struggles, the masters have invariably come off conquerors, yet will show, on the other, that in all the intervals between their victories the masters have been continually giving way. Repeatedly they have been seen successfully maintaining their ground against the most desperate assaults, and then, presently afterwards, tamely retreating without waiting for a renewed attack. Repeatedly they have put themselves to enormous expense in resisting their men's demands, for little other purpose, apparently, than that of having a decent excuse for subsequently admitting them. During nearly half-a-century, all signal triumphs have been on one side, all substantial success on the other. In all the more extensive and prolonged strikes, whose duration proves that though strenuously maintained they were likewise firmly resisted, the men having invariably put forth their utmost strength merely to find that strength miserably inadequate; invariably, they have met with what a tender-hearted opponent, regarding their proceedings with eyes not the less commiserating because those of an ironmaster, has aptly termed 'the same dismal uniformity, the same miserable monotony of defeat.' . . Wherever the masters have persevered they have reduced their men to submission, but there is no great exaggeration in saying that for every instance of such successful persistence on their part, there have been a hundred in which they have yielded or compromised the matter at issue, perhaps after a short fight, but as often as not, merely waiting to be convinced that the men were in earnest about fighting. In all trades under the influence of unionism, wages, though subject to occasional fluctuation, have, ever since that influence began to make itself felt, been, on the whole, continually rising. In some they are 25 or 30, and in one 50 per cent. higher than they were forty years ago, and in all, the average rate is probably at least 15 per cent. higher than it was then." (On Labour, 2nd Edit., pp. 251-254.)

These writers seem to consider that the question is merely whether a rise of wages is sometimes opposed by the masters, and is conceded from a fear on their part that the men will refuse to work unless they obtain what they demand. If this were the whole of the question at issue there would be little occasion for controversy, since nothing is more

certain than that masters have frequently acceded to the demands of a trade union. But the economic question is not whether unions are in some cases a part of the machinery employed in adjusting the rate of wages, but whether the unions have any power to raise wages above the rate at which they would be fixed by the competition of masters and men if there were no combination on the part of the latter. The "post hoc, ergo propter hoc," which these writers put forward as a sufficient argument to establish their case, will not avail unless it can be shown that no rise has taken place in those trades which are not subject to the influence of unionism. Not only do they furnish no evidence to show that there has been no rise in other trades, but it would be difficult to do so, for the table given in the last chapter shows that during the period 1851-70 there was a rise of 30 per cent. in the wages of agricultural labourers, although they had not at that time formed any unions at all. There can be no doubt that wages sometimes rise, and in those trades in which unions exist a demand for an increase is frequently put forward or supported by the unions, but if there is no greater rise in these trades than in others the mere fact of a rise does not prove that the unions have caused it. The immediate occasion of a rise is a request on the part of the men, and the consent of the employers is necessary to establish it; but the question is, whether the rate can be settled arbitrarily, or whether both employers and men are obeying, consciously or unconsciously, an economic law which settles what their rate is to be, and to which both parties must submit. Mr. Thornton, indeed, is prepared to find other explanations given of the rise to which he refers, but he thinks that they can be easily disposed of by the following reply :—"Of course it is open to any one to question whether the enhancement of labour's remuneration which has thus been going on at both ends is due to the influence of trades' unions, and whether it would not have taken place equally if the price of labour had been left to find its own level without extraneous interference. The questioner here, however, may very properly be left to answer himself, as he may satisfactorily do by proceeding to enquire how often any portion of the enhancement referred to has been volunteered by the masters, and how often it has only yielded to solicitation with force in the background. He will find the instances of masters spontaneously raising wages to be about as numerous as those of workmen conscientiously believing themselves to be overpaid, and coming forward to insist that their wages should be reduced." (pp. 257-8.)

But this, if it proves anything, proves too much; for, if the mere fact that a rise of wages is preceded by a demand on the part of the labourers is sufficient to prove that they can raise the rate of wages, the parallel fact that a fall never takes place unless proposed by the

masters must be sufficient to prove that the latter have the power of reducing wages, and we are thus brought to the singular conclusion that each of the parties to the bargain has the power to determine it in his own favour. Mr. Thornton seems to forget that the question is, not which of the parties is the first to propose an alteration, but whether a combination on one side is able to effect an alteration under conditions in which it would not take place if no combination had been made. It is difficult to conceive any stronger argument against Mr. Thornton's contention than is furnished by his own evidence. He tells us that whenever a great struggle has taken place between masters and men the former have invariably triumphed, and that, nevertheless, wages have been constantly rising. Surely this affords a convincing proof that the rise is due to some other cause than the action of the men. Whenever they have put forward a demand which the employers have seen to be inadmissible they have been unsuccessful, and they have succeeded only in those cases where the employers have considered the claims to be reasonable, and have readily consented to them. Surely, then, the explanation of the rise must be sought in the circumstances which convince employers that a rise is required in some cases and not in others.

Mr. Harrison and Mr. Thornton have, of course, no difficulty in selecting trades in which unions have been formed and in which wages have risen, and if we confine our observation to these trades a good case seems to be made out; but it has been reserved for Mr. Brassey to show that the rise has been by no means confined to these trades, and thus to confront the imposing array of facts with another set of facts equally well-established, and tending to an exactly opposite conclusion. The following passage affords some instances of a rise of wages in cases where trades' unions were not in operation:—"Our operatives have but a faint conception of the rise of wages which has taken place abroad in countries where trades' unions did not exist, and where the improvement in the workman's condition was attributable solely to the increased demand for labour. From the tables given in the report prepared by Mr. Phipps, on the industrial classes in Wurtemberg, it appears that the average increase in the rate of wages in eight branches of manufactures and industry, during the last thirty years, amounted to between 60 and 70 per cent. In the building trades the rise of 80 to 90 per cent. is to be explained solely by the unusual activity in the trades. As a general average, 69 per cent. may be taken as the increase in the daily wages for the out-door labourers. In their class the increased demand for labour is peculiarly noticeable. In Hungary, before 1865, the wages of common labourers were 1s. 3d. a day. In Moldavia the same rates of wages were paid on the railways, although agricultural

labourers were earning only 6½d. a day in money, together with an equivalent of 3½d. in food. In 1871, in Saxony and Bohemia, in consequence of the great and increasing demand for labour, both on the railways and from the general revival of industry after the cessation of hostilities with Prussia, the daily wages of labourers rose to 2s. and 2s. 6d. On the Suczawa line the wages of labourers, at the commencement of the works, varied from 45 to 60 kreutzers, or 9d. to 1s. a day; but, owing to the demand for men on the Moldavian lines, the wages rose within a year to from 60 to 80 kreutzers, or 1s. to 1s. 4d. a day." (Work and Wages, pp. 43-45.)

The London building trade has been referred to as one in which wages have been raised by the action of trades' unions, but it appears from a table given by Mr. Brassey on p. 198 of his work, that the rise during the period 1853-69 was no greater in the case of the mechanics who were combined in unions, than in that of the labourers who were not, the rise having been, in both cases, equivalent to 33 per cent. It was not till 1872 that an union was formed among the common labourers engaged in the London building trade. Thus it appears that a considerable rise has taken place in cases where trades' unions have had no influence; but, as if to make the case still stronger, one trade which possesses a very large and powerful union exhibits scarcely any rise of wages during a period of fifteen years. The Amalgamated Society of Engineers is, in point of numbers, wealth, and organisation, second only to the Amalgamated Society of Miners, and has been described as being so powerful that employers will never again venture to try its strength. Yet it appears, from a table given by Mr. Brassey (p. 157), that the wages of the engineers employed at the Canada Works, Birkenhead, were not materially higher in 1869 than they had been in 1854, when the works were first established, the rise not being so much as 4 per cent. It is true that they had risen to a higher rate in some of the intervening years, but it is equally true that they had often fallen below the point at which they stood in 1854. The average number of men employed was 600, which, Mr. Brassey informs us, is "a sufficient number to afford a fair opportunity of testing the average wages in the mechanical trades throughout the country," and many of them belonged to trades' unions; and as these bodies were unable to prevent wages from falling on several occasions, it would be unreasonable to give them the credit of a rise whenever one has occurred. Thus it appears that facts, when carefully and impartially collected, by no means establish the ability of trades' unions to raise wages above their normal level, and the ground is now cleared for the discussion of the theoretic question on economic principles.

It is commonly urged that trades' unions cannot raise wages because these depend on the proportion between the wages-fund of the country and the number of labourers employed. If by the wages-fund be meant simply the whole amount of what is distributed in wages, it is clear that the whole body of the working classes cannot receive more unless the fund be increased, but as the object of those who seek a rise of wages is to increase this fund, the objection has little force, unless it is maintained that the wages-fund is a fixed quantity. This, accordingly, is maintained by those who put forward this argument, for they say that the whole body of capitalists set aside, or destine, a certain proportion of their capital to be employed in maintaining labourers, and that they will neither increase nor diminish this amount in consequence of any action on the part of those whom they employ. Mr. Longe and Mr. Thornton maintain, in opposition to this theory, that capitalists do not set apart any definite sum of money to be spent in wages rather than on their own personal enjoyment, or on the purchase of machinery or materials. This is perfectly true, but is hardly a sufficient answer to the argument, since their opponents do not maintain that capitalists consciously or arbitrarily devote a certain amount of capital to this purpose, but only that the circumstances of industry are such that this amount must be so employed if industry is to be profitably carried on. In truth, however, the proposition that the wages-fund is a fixed quantity is one which has never been satisfactorily proved, and which it would be difficult to establish. The quantity of food and clothing existing at any one time in a country is, indeed, limited, and cannot be increased by a combination on the part of the workmen. But there is nothing in the nature of things which compels the possessors of capital (*i.e.*, food and clothing, &c.) to employ always the same quantity of it in maintaining operatives, and prevents them from either increasing or diminishing the quantity which they devote to the maintenance of their own families. When an abundant harvest has increased the quantity of food in the country, it must either be eaten or wasted; but the rich, who have the power of appropriating it, may choose to employ it in supporting a greater number of their own children in idleness, or may choose to maintain additional labourers to minister to their own comfort. The advocates of the potency of trades' unions may, therefore, reasonably contend that these bodies can, by exerting a pressure on capitalists, induce them to increase, not, indeed, the capital of the country, but the portion of it which is devoted to the maintenance of labourers, or, in other words, the wages-fund. Whether this can be done or not will be discussed later on, but at present it is enough to say that the existence of a wages-fund does not offer an insuperable obstacle to its being done.

Again, it is said that trades' unions cannot alter the rate of wages because this is determined by the demand for, and the supply of, labour. It is, however, difficult to discover any other meaning in this phrase than that wages are determined by an agreement between employers and employed. Mr. Brassey, for instance, always ascribes a rise of wages to an increased demand for labour, but he frequently assigns the fact of a rise as the sole proof of a change in the relations of supply and demand; and if this mode of reasoning be admitted to be correct, it is not easy to see how it could be proved that a rise of wages had been brought about by the action of a trade union, since the mere fact of the rise would be urged as a sufficient proof of the increased demand for labour, which would be declared to be its cause. It is perfectly clear that wages cannot rise unless employers are so much in want of workmen as to be obliged to give them increased wages rather than dismiss them, and if this necessity is to be called an increased demand for labour, of course wages can never rise unless the demand increases; but this affords no proof that a combination on the part of the men may not bring about the increased demand which, in this sense of the words, it is their object to obtain. Sometimes, indeed, Mr. Brassey uses the term "great demand for labour" to signify a state of things in which employers have so many orders on hand that they are glad to engage any man who can handle a tool, and he seems to suppose that it is only in such cases that a rise of money-wages can take place. If this were so, it might afford a proof of the inability of trades' unions to raise wages; but the general rise which has marked the last quarter of a century has extended to many trades which have exhibited no unusual activity, and it is still open to the unionists to cite these cases as proofs of their power. If labour be regarded as a commodity whose price is determined by "the higgling of the market," it is open to the unionists to contend that its price may be artificially raised by withholding part of the supply; and the unions have the power and the will to do this by restraining their members (and, to some extent, all other persons) from engaging to work unless they receive sufficient wages. This argument has been very forcibly urged by Mr. Thornton, who maintains that whenever commodities are sold without any reserve price being fixed by the sellers, they are likely to fetch less than if one had been fixed, and that labour is commonly offered for sale without reserve because the labourers cannot afford to wait until the market takes a more favourable turn. They cannot afford to wait unless they have some fund out of which to support themselves until they can obtain their own terms; and if there are a few individuals who have accumulated small sums of money, they cannot (Mr. Thornton contends) obtain what they ask,

because they are so few that employers can dispense with their services altogether. If Mr. Thornton merely contended that a trade union might here and there enable an individual to obtain the current rate of wages when, if left to himself, he would not be able to make so good a bargain, there would be nothing to object to in the argument; but it is going much further to contend that a rise of 30 or 50 per cent. in the wages of a whole trade has been brought about by the efforts of the unions. If a commodity is habitually sold without reservation of price, it may sometimes be sold very low, but it does not follow that it will always, or, on the average, be sold for less than its cost price; and it does not follow that because a workman is poorer than his employer, he is more likely to yield in the struggle. As has been urged by Mr. Sterling (in his essay contributed to "Recess Studies,") the motives which influence the two classes are different in kind, and cannot be properly compared with each other. The poor man has the fear of starvation before his eyes, but the rich man fears the loss of some luxury, or some advantage of social position; and though the latter may seem to be a more trifling sacrifice, yet the sacrifice of money which the employer is required to make is, relatively to his fortune, much less than it is to the labourer. It has been supposed that the unions limit the number of apprentices whom any master is to be allowed to engage, with a view of diminishing the number of labourers in the trade, and of thus raising the rate of wages. It is, however, more probable that these regulations are made rather with the view of compelling masters to employ more journeymen and fewer apprentices than with that of limiting the number of labourers in the trade. However this may be, such regulations, if they ever restrict the number of persons in a single trade, may give rise to considerable inconvenience by preventing work from being done, but they cannot raise the rate of wages.

In a former chapter I have endeavoured to show that wages are determined neither by the extent of the wages-fund, nor by supply and demand, but by the efficiency of labour; and it now remains to examine whether the power of trades' unions to raise wages is consistent with this theory. Instead of reckoning wages in money, I will, for the present, reckon them in the article which the labourers produce. Let it be assumed, for instance, that every hundred farm labourers produce 3,780 hectolitres of wheat in a year, and that the rate of profit is 5 per cent. Under these circumstances each man's wages will be 36 hectolitres of wheat per annum, thus leaving 180 for the farmer's profit. In what way can a combination of labourers raise wages above this point? Such a combination obviously does nothing to increase the total product, and there is, therefore, no method by which the labourers can obtain more,

except a reduction of the farmer's profit. But what power have they to compel the farmer to submit to this reduction? They can, indeed, refuse to work for him if he rejects their demands, but he is equally able to refuse them his support unless they accede to his terms. It cannot be contended that he is more in need of them than they are of him, for without him, or rather, without his capital, they could not maintain themselves at all. They might, indeed, provide their own capital with which to carry on the work, but, if they did so, they would have become capitalists, and would require the same rate of profit as other capitalists had formerly done. If we suppose that there are other trades carried on besides agriculture, a farmer would rather withdraw his capital from agriculture and employ it in some other trade than submit to a reduction of profit, and such a withdrawal would, in time, produce so much distress among agricultural labourers as to compel them to reduce their demands. Mr. Thornton, indeed, contends that if all the labourers of the civilised world were united into one immense international union, they might compel capitalists to submit to a reduction of profit, because there would then be no trade to which a dissatisfied capitalist could transfer his capital. But even in such a state of things capitalists would be no more at the mercy of the labourers than the latter would be at their mercy, for capital would be just as necessary to the support of labourers as it is now, and it could not be accumulated or preserved unless those who undertook the task received what they considered a sufficient remuneration. Elsewhere, Mr. Thornton himself admits that in such a state of things, the capitalists, if their combination was as perfect as that of the labourers, could bring the latter to submission. But a combination is not necessary to prevent people from carrying on business under conditions which do not satisfy them. The self-interest of each would induce him to stand out against any demand which threatened to trench upon his profit, and the resistance of each would protect the interests of all. The same argument will, of course, apply when wages are measured in any other commodity than wheat; and the wages of colliers, measured in coal, cannot rise unless some means be discovered of raising a greater quantity of coal with the same quantity of labour. It is the same with the wages of gold miners, measured in gold, where the same fact presents itself, that while the product remains the same, the labourers cannot obtain more unless the capitalists receive less, and this the latter will not submit to.

It may be thought, however, that as all kinds of labour are not remunerated at the same rate, it is possible for a combination of labourers in a single trade to raise wages above the rate at which they should be fixed, if regard were had to the advantages of the particular trade, as

compared with other trades. May they not, without doing more work, yet exchange their products on more favourable terms against the products of other classes of labourers? To state the matter differently, it may be suggested that the money-wages of the mechanics engaged in the building trade, for example, may be raised in consequence of the threat of a strike, and that the master builders may secure themselves against loss by a corresponding increase in the prices which they charge to the public. Mr. Thornton contends not only that this can be done, but that it has been done in this very trade, and he devotes a whole chapter (Book III., chap. 4) to an enumeration of all the cases in which it can be done. He discusses the question as if it were one in which none but capitalists were concerned, and maintains that the rise in question may be effected in those cases where the capitalists enjoy a practical monopoly, and are not compelled to reduce their prices by fear of the competition of other capitalists. He cites the building trade as one which is generally more or less the subject of a local monopoly, since customers who require to have some repairs executed in their houses, have, generally, very little choice as to the builder whom they will employ. He cites, also, the iron trade as one in which English employers have so great an advantage over foreigners that they might raise their prices considerably without any fear of being under-sold by foreign competitors. He cites other examples of the same kind, but these two are sufficient to serve as types; and contends that in such cases a combination of labourers may effect a rise of wages without trenching upon profit. Certainly, the rise, if effected in this manner, would have no effect upon profit, and need not meet with any resistance on the part of the masters. But there is another force which seems to have escaped the notice of Mr. Thornton, which is actively at work to protect the public against such an imposition. If such a rise were to take place, the labourers in the building trade would be receiving higher wages than were sufficient to compensate its disadvantages when compared with other trades; and this disturbance of the balance would attract labourers from other trades, whose competition would enable the employers to obtain the necessary number of hands at the old rate. In practice, a strike never extends to the whole country, and when the labourers in any one town demand more than the employers can afford to pay, fresh hands are brought in from other parts of the country, and the former rate is maintained. If, indeed, such a strike extended to the whole country, it would be difficult for employers to obtain skilled workmen to take the places of those who struck; but, even in such a case, the novices would be taken on to perform the work which was more urgently required, while other work would be left until the novices had acquired

skill, or until the strike was over. Since Mr. Thornton wrote, a strike in the London building trade in the summer of 1872, though maintained for many weeks, has ended in failure; thus showing that this trade forms no exception to the general rule that labourers who desire to obtain a rise of wages must choose a time when the state of the trade is favourable to their demands, if they are to meet with success. Although, however, for the reasons just stated, I am unable to admit that trades' unions have any power to raise wages, except at those conjunctures when a rise would take place without their intervention, I see no reason to dispute the correctness of Mr. Fawcett's opinion, that an union may sometimes obtain a rise somewhat earlier than it would otherwise be accorded. Treating the question as an abstract one, I maintain that wages depend on the efficiency of labour, and that labour cannot become more efficient without wages rising; but I do not, of course, maintain that there cannot be a delay of a week or a fortnight in the readjustment of the scale of wages in any trade. When a rise has become necessary, the employers are naturally disposed to postpone it as long as possible, and to appropriate to themselves the high profits derived from a rise of prices, unaccompanied by a rise of wages. Under these circumstances it may sometimes happen that a demand, preferred by an union, may meet with more prompt attention than one coming from an unorganised number of workmen, since the employers may stand more in fear of a strike in the former case than in the latter. Yet I would not attach too much importance even to this slight admission, for it has been forcibly urged by Mr. Sterling, in the essay before referred to, that the uncombined railway navvy knows quite as well when his services are required, and how to suit his tone to his circumstances, as the leaders of any trade union. When there are few railways in construction, the navvy is willing to accept low wages, and goes about begging for employment; but when a contractor has many contracts in hand, the navvy changes his tone and refuses to work unless he obtains the high wages which he demands. Mr. Brassey mentions that in 1866 his father's employés had become quite unmanageable, through the frequency of their demands for higher wages, but that immediately after the failure of Overend, Gurney and Co., they agreed to accept a reduction in their wages.

It is gratifying to find that the conclusion thus arrived at, differs little, if at all, from the position maintained by the late Mr. Dunning, the able writer who was put forward by the trade union of which he was a member (London society of bookbinders) to defend the cause of unionism in general. I must endorse Mill's recommendation of his pamphlet, "Trades' Unions and Strikes, their Philosophy and Intention," to all who desire to know the opinions and feelings of the working classes

themselves with regard to this important subject, and to hear both sides of the question before deciding it. The amount of information which it contains is considerable, and the manner in which the argument is stated is certainly calculated to astonish those who only know the arguments of the unionists at second-hand. Mr. Dunning contends that the object of trades' unions is not to raise wages above the normal rate, but to secure to each of their members the normal rate, or, as he calls it, the supply-and-demand price for his labour; or, in other words, to protect individuals against being unfairly treated in a bargain, and receiving lower wages than the efficiency of their labour would entitle them to. If, in any case, an union demands a rate which the employers cannot afford to pay to all their workmen, the employers, he says, can protect themselves by employing only the more skilful ones who are able to give a full equivalent for their wages. He does, indeed, maintain that higher wages are paid in those workshops where many unionists are employed than in those where there are no unionists; but as he tells us that most of the superior workmen belong to the unions, and that it is only the inferior ones who frequent the shops where lower wages are paid, the superiority of the former class is sufficient to account for their receiving higher wages without attributing it to the influence of the unions. But it may be asked how it is that, if trades' unions have no power to raise wages above the rate at which the exigencies of trade would compel the masters to fix them, there should be such fierce and protracted struggles between the two classes about this very subject. On this question Mr. Dunning's pamphlet throws a somewhat curious light. He tells us that some of the most celebrated strikes, such as that of Preston, in 1853, and that of the London builders in 1859, were produced not so much by a dispute about the rate of wages, or the hours of labour, as by the haughty behaviour of the masters when the demands of the men were presented to them. In the latter instance the occasion of the strike was the dismissal of the delegates who presented a petition from the workmen asking for a reduction of the hours of labour. More recently the strike of the Newcastle engineers in 1871 was occasioned, according to the account of Mr. Burnett, the president of the nine hours league, by the angry refusal of the masters to consider the demands of the men, and would have been averted if they had consented to an amicable conference on the subject. Probably the masters would have much to say on their side which would tend to throw the responsibility of the rupture on the shoulders of the men, but if this be so it only strengthens the case by showing that these disputes arise not from any economic necessity, but from loss of temper on one side or the other. It does not follow that because there is a certain rate of wages to which both parties must agree, it is, therefore,

at once obvious to both parties; and as long as the two classes are so entirely distinct as they are in a large manufacturing city, there must always be a risk of differences of opinion on these matters leading to a serious quarrel.

It may be thought that if trades' unions have no power to raise wages they are therefore useless, but this would be a very illogical inference. Because they cannot perform what some of their admirers have supposed them capable of doing, it does not follow that they can do nothing. It has been admitted that they may sometimes obtain a rise somewhat earlier than it would otherwise take place, and this is an advantage to the individuals concerned. They may enable individuals to obtain the current rate of wages who would otherwise be compelled to accept less, and this, again, is a great advantage to the persons concerned. But of far greater importance than either of these is the power which they possess to regulate the hours of labour, and the mode in which the work shall be carried on. A great part of the success which Mr. Thornton claims for the unions consists in the general reduction of the hours of labour, and in the adoption of working rules in accordance with the wishes of the men. I have found it necessary to combat his views respecting the cause of the rise of wages which has recently taken place, but I see no reason for refusing to the unions the credit of having effected these other improvements in the condition of the working classes. Combination is necessary to effect a general change in the customs of a trade, and it depends upon the choice of the men themselves to determine how long and in what manner they will labour, though it does not depend on them whether the reward of their labour shall or shall not be proportioned to its efficiency. As long as masters are in the habit of regarding every request from their workmen as "dictation," and are disposed to persecute those individuals who are put forward as the delegates of the men, it will be most desirable that there should be some organisation among the latter sufficiently powerful to command the respect of the employers, and to mitigate, if not to avert, the persecution to which the delegates are too often exposed. The gradual amalgamation of smaller into larger unions which is now going on, and is likely to continue, produces a beneficial effect by preventing many ill-advised strikes. The central executive of a national union receives information from all its branches respecting the state of trade in their respective towns, and though this information is not so complete as could be desired, it has proved sufficient to induce the executive to place its veto on many strikes which branch committees have wished to commence under circumstances where the state of trade would not have justified them. But even if there were no disputes for the

unions to conduct or to pacify, there would still be work enough for them to perform in the discharge of their charitable functions. There cannot be a more healthy sign of the progress of the English people than the determination which is now shown by the poorest class of all, the agricultural labourers, to relieve one another's misfortunes by their own subscriptions, without resorting to the voluntary, and much less to the forced contributions of other classes.

Various schemes have been put forward at various times for arranging disputes between employers and employed, but none of them have achieved as much success as the zeal of their promoters has deserved. Arbitration has been frequently proposed and tried, but it has been difficult to find an arbitrator at once impartial and capable; and when an award has been made, it has not been easy to induce all the parties concerned to concur in it. The "Conseils des Prudhommes," in France, give great satisfaction, because they are law courts composed of an equal number of employers and workmen elected by their respective classes; but when arbitration is resorted to as an occasional expedient, the difficulty of finding a competent arbitrator is not easily surmounted. So in international disputes it might be possible to induce nations to submit to the decisions of a permanent and well-organised tribunal; but when arbitration is tried as an exceptional measure, the arbitrators may prove to be as ignorant and incompetent as those who decided the Alabama controversy, and the award of such a tribunal is rather calculated to deter nations from resorting to this method of arranging their differences. The board of conciliation which settles disputes in the hosiery and glove trade of Nottingham has been in operation for many years with great success, for it is a permanent institution to which large numbers have agreed to refer their grievances. But where there is no such recognised body, it is always difficult even to induce both parties to refer the dispute to the decision of an outsider, to say nothing of abiding by the decision when made. Another scheme has been proposed with a view of preventing disputes by teaching both parties that their interests are in fact harmonious, and under the name of "co-operation" has attracted so much attention that it deserves to be examined in this place. There are two kinds of co-operative stores, both of which are designed to protect customers against adulteration, or other kinds of imposition which may be practiced by private tradesmen, but which employ different means to obtain their end. Those of one class, which are most patronised by the upper classes, are provided with the necessary funds for carrying on their business by small subscriptions from those who are interested in the concern; and the subscribers are then allowed to purchase for ready money such articles as the store contains, sometimes at the same price,

and sometimes at a lower price than is charged by private tradesmen. An arrangement is made with certain tradesmen who, on receiving a small annual payment, agree to supply the subscribers with those articles which it is not thought convenient to keep at the store, at a lower price than is charged to other customers, payment being required as before in ready money. As far as regards the articles supplied at the store, of which grocery forms the largest part, this arrangement does in part protect the customers from adulteration. As the capitalists who sell, are the same persons as the customers who buy the goods, no one has any motive to adulterate any article after it has been purchased for the store, since no one can gain anything by it. It cannot, however, protect customers from any adulteration which may be practiced by the wholesale merchant from whom the goods may be purchased by the agent of the store, who, of course, is as liable to be imposed upon as any retail dealer. As regards the articles supplied by the tradesmen who consent to act as agents for the store, there is no protection to the customers against any of the tricks of trade, and if they are really cheaper it is only because they are sold for ready money. The promoters of these stores have a vague idea of doing away with the capitalist's profit, but as the subscribers themselves provide the capital, they have to submit to the same sacrifice as an ordinary tradesman, and obtain their profit in the shape of cheaper goods, and if they gain anything it is because, by requiring ready money payments, they avoid the loss consequent on bad debts. Co-operative stores of this class have obviously no bearing on the relations between employers and employed, since the shopmen and others who are employed are paid in the same way as those in private shops. But there is another kind of co-operative store which is more popular among the working classes, and which makes some pretension to afford a solution of the social difficulty of the present age; the reconciliation of the interests of capital and labour. In stores of this class the necessary funds are provided by the customers or others, each of whom is able to take as few or as many shares as he pleases, the amount of each share being fixed at so low a point as to bring it within the reach of every thrifty workman. At stated intervals the accounts are made up, and, if they show a profit, a dividend is declared on the shares, and if there is more than sufficient to pay a dividend of 5 per cent., the balance, or part of the balance, is returned to the customers in proportion to the amount of their purchases at the store, as evinced by tickets furnished them for the purpose. This latter provision is, of course, a most effectual protection against any adulteration or similar mal-practice on the part of those employed in the store, since any profit made by such means would infallibly revert to the customers from whom it had been

extorted. But these stores, though they have done much to protect the working classes against imposition, and to encourage thrift by compelling them, as it were, to save money in the very act of spending it, effect nothing towards uniting capitalists and labourers so long as the shopmen and others employed in the store have no interest in the success of the concern, but are engaged, paid, and dismissed in the same way as persons of the same class in private establishments. They are nothing more than joint-stock companies, with rules more favourable to their customers than those of companies in general, but so long as the capitalists and the labourers are distinct, there is quite as much likelihood of a dispute leading to a strike or a lock-out in a co-operative store as in any other shop. It is true that the employés of a store may, if they choose, buy shares in it, and it is also true that the manager may prefer to employ shareholders if he can obtain them; and in either of these cases the employés must feel an interest in the success of the concern, and will be likely to avoid carrying any dispute so far as to inflict so great a loss on the company as would be occasioned by a strike. But unless none but shareholders are employed, there is the same antagonism of interests as in other establishments; and Mr. Harrison goes so far as to maintain* that the workmen employed in a co-operative store are not merely treated no better, but are actually treated worse, than those employed by private capitalists. If the workmen are admitted to a share in the profits, they will take as much interest in the success of the concern as the shareholders themselves, and will, doubtless, work more diligently and faithfully; but this plan is very seldom adopted. Even if it were more generally followed, it would still be necessary to come to some agreement as to the rate of wages, and the proportion of the earnings which should be set aside for the shareholders' profit. There might still be disputes on this subject, but such an arrangement would probably impress on both parties the conviction that their interests were harmonious and not opposed, and would restrain them from resorting to extreme measures.

As long as co-operation is confined to the business of distribution, it can only afford a partial guarantee against adulteration, &c., which may be practised by those who supply articles to the stores, and it has, therefore, been determined to extend the system to the business of production. Several cotton mills, as well as other manufactories, have been established on principles similar to those adopted by the co-operative stores of the second class just described; and these furnish cloth and other products to the stores and other customers. In these cases, as in

* Article on Industrial Co-operation. "Fortnightly Review," Jan. 1, 1866.

the stores, ready-money payments are, as far as possible, enforced ; and in these, too, the co-operation very seldom extends to the workmen employed, who have no interest in the success of the concern unless they happen to be shareholders. Some of these societies have been very successful, and their success has encouraged imitation in other branches of industry, in which even agriculture is now included. But there have, of course, been many failures, and they have generally been less successful in the south than in the north of England, and less successful on the Continent than in England. Two attempts have been made in London to carry on the business of a tailor on these principles, but both have failed ; and in one case (perhaps in both) the reason of the failure was the incompetence of the manager, who was unable to supply the wants of the customers in as satisfactory a manner as they were accustomed to in other shops. It is, indeed, generally found that co-operative stores are not so successful in selling articles of dress as in selling grocery and other things, and this seems to indicate that the managers of these establishments do not pay so much attention to the wishes of their customers as to satisfy them in a matter in which their tastes, as well as their comfort, are concerned. Even where the manager's salary is made partly dependant on the profits of the business, he has not the same interest in its success as a capitalist whose whole fortune is embarked in it ; and though he will try to secure a profit, he will be likely to be less careful about petty savings and other matters of detail, which are, however, of great importance where there is a keen competition from outside to contend against. It is sometimes urged that, if the government of a co-operative society is in the hands of a number of working men, they will be unwilling to pay a high salary to the manager, because this would conflict with their notions of equality ; and if this were so, it would, of course, be a fatal obstacle to any considerable success in the co-operative movement. But if any such feeling really exists among the working classes such as the objection implies, it is pretty sure to disappear before the teaching of experience, which will soon convince them that the services of an efficient manager are indispensable, and cannot be obtained unless they are highly remunerated.

When De Tocqueville enumerated all the causes which were tending to produce equality among all classes in America and elsewhere, he was reluctantly forced to confess that there was one cause which tended in the opposite direction, viz. : the growth of manufacturing industry on a large scale. Large factories are requisite for the successful adoption of mechanical improvements, and the necessity of entrusting the management to a single mind tended, in De Tocqueville's opinion, to

establish and perpetuate that subordination of the many to the few which, in all other circumstances, is giving way before the advance of knowledge and of civilization. Co-operation affords a means of reconciling industrial progress with liberty and equality. The direction of a factory may still be confided to a single manager, but he may be elected and removable by the workmen whom he directs, or by a committee elected by them. If they are wise enough to abstain from unnecessary interference, the manager may have quite sufficient power to carry on the business properly, while the knowledge that he is responsible will prevent him from adopting that haughty tone which masters too often adopt towards those whom they employ. At present, however, there seems to be no chance that co-operation will ever become the rule in manufacturing or other industry ; and the unwillingness to give credit shows that the promoters of these societies do not think themselves equal to a fair contest with private enterprise. Mr. Harrison considers it an objection to co-operation that there is no means of deciding what is the right proportion in which the earnings should be divided between the shareholders and the workmen ; but this is a merely theoretic objection, and can be easily got over in practice. If the workmen receive the same rate of wages as in private establishments, it matters little whether five, ten, or any other number, per cent. be reserved to the shareholders, or how the surplus then remaining is divided between the shareholders and the workmen. Provided that both classes are benefitted by the success of the concern, the arrangements which may be made for this object are only matters of detail ; and the right course to pursue is that which proves successful. Many strikes in various trades in England, France, and Germany, have been followed by the establishment of co-operative societies, by means of which the workmen hope to free themselves from the tyranny to which they consider that they have been exposed. It is well that such attempts should be made, but unless great care is taken in framing the rules of the society, the same antagonism of interest will re-appear, and will lead to a conflict between the shareholders and the workmen.

Another system has now been introduced which combines in an admirable manner the advantages of co-operation and of individual enterprise, to which the name of industrial partnership has been given. Under this system one or two persons provide the greater part of the capital, and have the entire management of the business; but the workmen are allowed to take shares in the concern, and receive a share in the profits even when they do not choose to become shareholders. This system has been inaugurated by Messrs. Briggs, the owners of the Whitwood colliery, near Normanton, in Yorkshire ; and if their success may be taken

as an earnest of what it is likely to produce, its general extension will prove an inestimable benefit to all classes, both of producers and of consumers. Previously to 1865, Messrs. Briggs had carried on their business on the same principles as are generally adopted by private firms, and they had been subjected to considerable loss and annoyance by frequent disputes with their workmen; but in that year they determined to see whether this state of things could not be put an end to by taking their workmen into partnership. They accordingly transformed their business into a limited liability company, themselves taking two-thirds of the shares, and offered the remaining third to their employés, and to the general public. Only a small proportion of the shares so offered have been taken by their employés, but Messrs. Briggs inserted a proviso, that whenever the profits in any one year should exceed ten per cent., the surplus should be divided between the shareholders and their employés, the former, of course, receiving in proportion to their shares; and the latter, in proportion to the wages which they may have earned during the year. The effect of this change in their arrangements has been almost magical, for it has not only put an end to strikes among the workmen, but has induced them to become as careful as they had formerly been negligent in performing their work; has produced a marked improvement in the material and moral condition of themselves and their families, and has yielded a profit three or four times as high as that which Messrs. Briggs had obtained for some years previously to 1865. It deserves to be mentioned that the scheme was suggested to Messrs. Briggs by Mr. Fawcett's article on "Strikes, their Tendencies and Remedy," in the "Westminster Review," for July, 1860. Another firm, Messrs. W. H. Smith, and Son, the well-known newsagents, have applied the same principle to that portion of their business which consists in supplying newspapers at railway stations. Each clerk receives a regular salary, and, in addition, a per centage on the profits of the particular stall of which he has the management; and this arrangement is found to work extremely well, as it stimulates the clerks to an activity which is equally beneficial to themselves, their employers, and the public. These two firms are, however, the only ones which Mr. Thornton, (from whose work "On Labour," much of the information made use of in the present chapter is derived), can point to as practising a genuine co-operation with the labourers in their employ, since they alone allow them to share in the profits without providing part of the capital. There are many instances in which the business of a private firm has been converted into a joint-stock company, and in some of these, as in that of Messrs. Crossley, carpet manufacturers, of Halifax, the employés have been expressly invited to take shares; but in these

cases they only obtain profit as shareholders, and not as labourers. There are, however, some occupations, both in this and in other countries, in which it is the rule, and not the exception, that the capitalists and the workmen should divide the proceeds among them according to certain fixed rules; and in these cases the wages of the latter are made to depend wholly on results. Marine fishery is one of these occupations, the rule on some parts of our coast being that the owner of the net should receive four shares of the fish caught, the owner of the boat one share, and each fisherman one also. In other parts of the coast the rules of division are different, but the same principle prevails, as it does in the whale fisheries of the Arctic Seas. In the tin mines of Cornwall, a system is in operation by which the miners form themselves into an association, and contract with the owner of the mine to work a portion of it in consideration of receiving a certain share of the proceeds. This system is found to work very well, and completely obviates the strikes which are so common in the coal and iron districts. Wherever industrial partnership has been tried it has generally proved successful; but it is feared by some that its general extension may be found to be a matter of difficulty. It frequently happens that a capitalist carries on his business for a whole year at a loss, and in such a case, as there would be no profit to divide amongst the workmen, they might begin to doubt whether their increased industry had produced any result; and if on this account they were to relax their efforts during the next year, this would probably end as the former one had done, without yielding any surplus to be divided amongst them. This objection, however, is not a very formidable one, since the majority of enterprises must yield the average rate of profit, and the hope of sharing in the surplus will stimulate the workmen to that increased industry which, in the majority of instances, will produce its own reward.

The three systems which have been described in this chapter, unionism, co-operation, and industrial partnership, are all calculated to improve the condition of the working classes; the first affording them relief in times of distress, and the two latter affording an addition to their wages. It is significant that the development of all three has been impeded by legal obstacles, both in this country and on the Continent. Trades' unions were altogether prohibited in this country down to 1826, as they still are in Austria and other countries. After their existence had been tolerated in England, they were, and, to some extent, still are, exposed to a sort of outlawry, by the refusal of the courts of law to enforce the claims of a trades' union against any of its members who may have embezzled a portion of its funds. The original ground of this refusal was the monstrous principle that a man cannot steal the property

of any society of which he is a member, since he is part-owner of the property, and cannot steal what is his own. When the injustice of the principle became apparent, parliament, instead of sweeping it away, merely ordained that benefit societies, if registered as such, and if there was nothing in their rules tending to "restraint of trade," should be exempted from its operation. It was then decided that support given to a strike was in restraint of trade, and that trades' unions were entitled to no protection. Then the law was again tinkered, and they were promised protection if they would register themselves in a certain way, as if they were to regard it as a favour that they should receive the same protection as all other citizens in the use of their property. Even now the Amalgamated Society of Engineers is not registered, and is not entitled to legal protection. The establishment of co-operative societies in this country was long impeded by the law, which prevented them from purchasing as much land as was necessary for the buildings in which their business could be carried on. When M. Leclaire, the house-painter, of Paris, proposed to give some of his workmen a share in the profits of his business, he desired to assemble them together in order to explain his scheme to them, but the laws of France did not allow him to do this without obtaining leave from the Government, and his application for an official authorisation was refused. In England, the introduction of such a system of industrial partnership as that pursued by Messrs. Briggs, was long impeded by the law which prevented anyone from sharing in the profits of a business without becoming responsible for its losses, whereby the workmen were exposed to a risk which it might have been dangerous for them to run. The law has now been altered, and the ground has now been cleared for all those who desire to try the system. Whatever may be the destiny which is in store for these three systems, their success or failure will in no way affect the correctness of the principles which have been laid down as regulating wages and profit. Unionism, whatever may be its future development, can never lower profit or raise wages. Co-operation and industrial partnership tend to raise wages, but only by stimulating the industry of the workmen, whose wages rise because their labour is more efficient.

BOOK III.—EXCHANGE.

CHAPTER I.—MONEY.

THE USE OF EXCHANGE—MEDIUM OF EXCHANGE—STANDARD OF VALUE—COIN—STATE COINAGE—THE BRITISH MINT.

PRODUCTION can hardly be carried on with much profit to the members of a society unless they exchange their products with one another. The habit of exchanging is one of those which distinguish man from the inferior animals. There are some kinds of animals, such as the ants and the bees, which live in common, and in which different functions are performed by different members of a group, but man alone exhibits an organisation in which different individuals devote their labour to the task of supplying the wants of others, in the full reliance that their own wants will be supplied by the labour of others. There are many small societies, such as monasteries and communistic establishments, the members of which strive to dispense with exchange, and to apply the labour of all to producing a common stock out of which the wants of all may be relieved. But these societies have seldom, if ever, been able entirely to dispense with the assistance of other persons not belonging to their bodies, and in order to obtain this assistance, they have been obliged to give something in exchange for it. If every person were to attempt to supply his own wants they would not be so well supplied as if each had a business of his own and devoted his whole energies to learning that business thoroughly. "Jack of all trades, and master of none" is a proverb which expresses one of the disadvantages to which a society is exposed where such a system is carried on, since if every man is his own farmer, his own baker, his own tailor, &c., it is impossible that he should acquire a thorough mastery of any one trade, and all the advantages of the division of labour would be lost. As regards agriculture, a still more serious disadvantage would be experienced, for if each district were entirely dependent on its own produce for food, a bad harvest in any one district would be inevitably followed by a famine which it would be impossible to relieve from the plenty of other districts.

Such is the melancholy condition of the greater part of India where

the produce of the more favoured districts cannot be brought into those which are stricken with famine, or, at least, not in sufficient quantities to relieve it, because the country is not provided with roads, and the want of roads is the consequence of the small extent of internal commerce. The only way in which a country which has no external trade can save itself from periodical famines is the accumulation of the surplus of abundant years in large granaries, to be made use of in years of scarcity. This course is said to have been adopted by the Incas of Peru, but it would seem that the stocks preserved in their public granaries were not very abundant, since they were soon exhausted by a few hundred Spaniards, who, however, are said to have been extremely wasteful. As the Incas took the management of this matter into their own hands, taking from their subjects whatever was in excess of their wants, and giving to them whatever was necessary for their support, there was no system of free exchange, but the people of one district were sometimes fed with the corn produced by those of another, and these in turn were often clothed with the wool produced by the people of other districts, so that they indirectly exchange their products with one anothor. In Africa, at the present day, foreign trade is, in some sort, a monopoly of the Government. An European traveller who visits Uganda or any other portion of equatorial Africa receives, on arrival, a present from the king, and is expected to give another present in return, and the king is certain to express his dissatisfaction if he receives what he considers to be of less value than what he has given to the traveller. The king provides all that the traveller requires during his stay, but does not permit him to trade with the people, and if Europeans desire to carry on commerce with these regions, they must do so by exchanging presents with the local kings. Such a practice as this may have been the origin of exchange, but in any country where it has once become customary it must have had the effect of restricting different individuals to different occupations, for people must soon have discovered that they could obtain more comfort by devoting their whole time to producing those articles which they were best able to make, and presenting them to others, who would give them other articles of which they were in need. It is not necessary for an exchange to be profitable that one of the parties should excel in one kind of industry, and the other in some other kind, but a man who excels another in skill in both branches may yet find it to his advantage to devote himself to one kind, and to exchange some of his products with a less skilful labourer who devotes himself to the other business. At first sight this sounds paradoxical, but a little consideration will show that it is quite possible, and there is good reason to believe that such a state of things is actually realised in practice, both as regards

different individuals in the same country and different nations. If Jones can make in three days a coat which Brown would require six days to make, and can also make in two days a hat which Brown could only produce with the labour of two-days-and-a-half, he would be both a better tailor and a better hatter than Brown, and yet it would be advantageous to both that Jones should become a tailor, and Brown become a hatter, and that they should mutually supply each other's wants. By the labour of three days Jones could produce a coat which he could give to Brown in exchange for two hats, to produce which for himself would require the labour of four days, and would thus save one day's labour. Brown also would gain by the transaction, for the hats which he produced with the labour of five days would enable him to procure a coat which he could not have produced for himself in less than six days, and he, too, would spare himself the labour of a day. The exchange is profitable because Jones, though he has an absolute superiority in both cases, has not in both the same relative superiority over Brown, and it is better for him to devote himself to that occupation in which his superiority is relatively greatest. As a tailor, his skill has been supposed to be twice as great as that of Brown, while, as a hatter, he only excels him in the proportion of five to four; but if Jones were twice as good a hatter, as well as being twice as good a tailor, he could gain nothing by an exchange. If Brown required four days to make a hat, he would not give more than a hat and a half for a coat which he might make in six days, and Jones, by agreeing to such a bargain, would obtain by the labour of three days nothing more than the hat and a half, which he could have made for himself in the same time if he had not been engaged in making a coat for Brown. It is quite possible that the intelligent artisans of the towns might, if they devoted themselves to agriculture, make better farmers than the rural labourers, but even if this were so, the above example shows that it may still be better for them to devote themselves to the mechanical arts, in which they have an unquestionable superiority. Ricardo has demonstrated that a trade between two countries might be profitable under such circumstances; but I believe that Cairnes has been the first to point out an instance in which such a trade is actually carried on, viz., between Europe and Australia. Australia, as he tells us, imports, or used to import, boots and shoes from England, butter from Ireland, and timber from the north of Europe, although all these articles could be produced in Australia with less labour than is employed in producing them in Europe, to say nothing of conveying them to Australia. The extensive pastures of Australia enable leather and butter to be produced with very little labour, and the difficulty of making boots cannot be greater than in England, while the

natural forests of the country afford quite as great facilities for procuring timber as do those of Sweden or Norway. But, although Australia has a superiority over Europe in these respects, it has a still greater advantage in the production of gold, and its inhabitants find it cheaper to devote most of their energies to extracting gold, and to exchange it for the articles which they need, and which can be produced in other countries where gold can hardly be found at all. People frequently speak of a self-supporting country as if it must be in a peculiarly happy condition, but it is pretty certain that such a country is really wasting its energies in producing articles which it might import from abroad with greater advantage to itself; for even if it were so favourably circumstanced as to be better fitted than any other part of the world for the production of all the articles which its inhabitants required, it is scarcely possible that it should possess the same relative superiority to every other country in every branch of industry. England now imports millions of eggs from France, but this does not prove that the French can produce eggs with less labour than the English; for it may be more convenient for the English to devote themselves to raising coal and iron from their mines, and, with the aid of these minerals, to manufacture cloth and other articles to be exported to France. The system of exchange enables food to be brought to the mining districts in sufficient quantities to maintain a large population who are engaged in mining and in manufactures, and thus secures not only to England, but to the whole world the advantages of the abundant supply of cheap fuel which the districts possess. Exchange in its simplest form is known by the name of barter, and consists of the direct exchange between two individuals of the articles which each possesses, and the other requires. On the west coast of Africa trade is still carried on in this manner; the European trader who desires to obtain palm-oil, or any other commodity, being obliged to provide himself with beads, or cloth, or some other article which the natives with whom he deals require for their own use. Where trade is carried on in this way it is obvious that commodities will in the long run be exchanged for one another in proportion to the labour expended in producing them, since no one will give an article which has cost him six days' labour in exchange for another which he could make in five days, which would be equivalent to performing a day's labour without an object, and it is unnecessary to repeat here what has been said in treating of the subject of value, to explain which a system of exchange was assumed to exist.

When a system of barter has been long in vogue, and people have become accustomed to rely on the labour of others for the satisfaction of their own wants, everybody finds it convenient to keep by him a

stock of some article which is in general request; so that whenever he requires anything for himself he may always have something to give in exchange for it. In those parts of Africa which were visited by Captain Speke, cloth is a commodity which answers to this description, and that traveller was obliged to take with him as many bales of cloth as he thought would suffice to provide for all his wants during his journey. His stock, however, ran out before his journey's end, and he found it necessary to send to Zanzibar for a fresh supply; and throughout his journey he had to employ a large number of porters to carry the bales from place to place. The frequent desertions of his porters, and the difficulty of replacing those who ran away, constituted the chief annoyance and trouble to which he was exposed. Had he been provided with a sufficient stock of some commodity which was as much in request as cloth, and, at the same time, much less bulky and heavy in proportion to its value, he might have been able to undertake his journey with a very few porters, or with no porters at all, and thus to accomplish it with much less trouble and expense. In the Malay Archipelago Mr. Wallace found that small knives were convenient articles to have at hand whenever he required to buy fish or other food for his dinner; and in other parts of the world various articles are used for the purpose of a general medium of exchange. One of the qualities which a commodity should possess in order to render it a good medium of exchange is obviously that of portability, which is, perhaps, the most important of all, and in this cloth is utterly deficient, as it is very cheap in proportion to its weight. Another requisite is that it should be easily divisible into larger or smaller quantities, so as to suit the varying wants of those who desire to obtain other commodities of more or less value; and, in this respect, live animals, which appear to have been used for this purpose at or before the time when the Iliad was composed, are extremely deficient, since one part of an animal cannot be parted with without its being killed. The metals possess divisibility in an eminent degree, and two of them, gold and silver, combine with this advantage that of possessing great value in proportion to their weight and bulk. The substance, whatever it may be, which is generally used in any country as a medium of exchange, is said to be the money of that country. It is necessary that money should consist of some material which will lose little or nothing by keeping or by use, and in this respect gold is eminently fitted for the purpose, as it does not combine with the oxygen of the atmosphere, and therefore does not corrode by exposure; and it is so durable that it has been estimated to lose no more than one four-hundredth part of its weight by the friction to which it is exposed by passing from hand to hand for a whole year. Copper is found convenient

in poor countries, and is used to some extent in richer ones, but its value is so much less than that of silver in proportion to its weight, that it is seldom used for any large purchases in a country which is acquainted with the use of silver. Iron, which was used in ancient Sparta, is so inconvenient for carrying on any trade on a large scale that its employment in that city has been ascribed to the policy of a legislator distinctly intending to prevent the Spartans from becoming a commercial nation. It is more probable that iron was used merely because it was found convenient in a country which possessed very little trade, and it was certainly abandoned in favour of gold and silver as the prosperity of Sparta increased. A similar substitution of the more costly for the cheaper metals has taken place, and is now taking place in other countries as their wealth and commerce have increased. Copper was originally the sole money of ancient Rome, and the same word "æs" continued to denote both money and copper, long after gold and silver had, to a great extent, supplanted it; but in modern Italy gold is principally used in large transactions, at least, in all cases where it is not replaced by bank-notes, which are, or profess to be, exchangeable for gold. In England, though copper money dates only from the reign of Elizabeth, silver was coined by the Government for many centuries before gold, which latter was first coined, and that only to a limited extent, in the reign of Henry the Third. We have now, for nearly two centuries, used gold as the principle medium of exchange, and silver has been confined to small transactions. A similar change has taken place throughout the Continent of Europe. In Asia, on the other hand, at least in that large portion of it which is comprised in India and China, silver still constitutes the principal medium of exchange; and as its value is there five or six times greater than in England, it is more convenient for the payment of wages and for effecting daily purchases of the necessaries of life than gold would be, though it is certainly inconvenient when large sums have to be sent from one part of the country to another, as must often be done by the Indian Government, and by private individuals.

Money, besides serving as a medium of exchange, performs another important function by serving as a standard of value. Not only does it enable a man to obtain whatever commodities he requires at whatever time he requires them, but it furnishes a ready means of calculating how much of any other commodity he will be able to obtain in exchange for those which he happens to possess. If a man possesses a hectolitre of wheat, he may know for how many sheep or for what fraction of a cow it will exchange, but it is impossible for him to remember the quantities of all commodities for which it will respectively exchange. In order that

he may be able to tell at any moment how much of any other commodity he can obtain in exchange for his wheat, he needs a common standard with which to compare the values of the two commodities. The value of an article depends, as I have already endeavoured to explain, on the amount of labour required to produce it; and though the farmer may know how much labour has been expended in raising his wheat, he cannot know how much has been required for the production of all other articles. The use of money enables him to compare the values of his own commodities with the value of money, and record the result of the comparison by naming the quantity of money for which he is willing to exchange a certain quantity of his produce, which quantity of money is called the price of his commodities. As he uses money for the payment of the labourers whom he employs, he knows how much money he has spent in raising his crops; and by fixing a price, he is able to distribute the cost over the whole of the produce. As all other producers fix a price for their commodities, the farmer has merely to compare his prices with theirs in order to see how much of any other commodity he can afford to buy; and it is no longer necessary to consider how much labour a particular article has required for its production, or how much labour it would enable its possessor to command. It is enough for a person to sell an article (as giving an article in exchange for money is termed), for more money than he gave for it, and he need not calculate whether the money which he paid was of more value at the time or place where he paid it than the quantity which he received is at the time and place where he receives it, since he has certainly got more than he had; and, at the same time and place a larger quantity of money will always be worth more than a smaller quantity. As Adam Smith expresses it, if an English merchant buys an article at Canton for an ounce of silver which he can sell in London for two ounces of silver, it does not matter to him that one ounce has as great a value at Canton as two ounces have in London; because two ounces in London are of twice the value of one ounce, and this is what he wants. When it has become customary for all commodities to be bought and sold for money, a class of men spring up who make it their business to buy commodities which they do not themselves require, and to sell them to other persons who do require them, and to make a living out of the difference between the buying and selling prices, which they fix at such a point as will enable them to obtain the average rate of profit on the capital which they employ, and sufficient wages for their own labour; and to this class the title of tradesmen in its widest sense belongs. At first sight, it seems that tradesmen perform no useful function which could not be better done by the producers and consumers themselves, and it was the opinion

of Aristotle that they were of no use, and ought to be discouraged, if not absolutely suppressed, in a well-governed State. In our own day, we frequently meet with the remark, that the tendency of the age is to bring consumers into direct contact with producers, and there certainly are a few facts which lend encouragement to this opinion. Many persons who are dissatisfied with the milk supplied to them by a milkman, find that they can do better by buying it direct from a farmer, and arrangements have been made by which a Manchester manufacturer can buy cotton direct from a planter in Carolina or Tennessee. But in spite of such isolated instances, I see little reason to anticipate that the class of tradesmen will ever disappear, since they discharge the necessary function of keeping a supply of articles on hand to meet the wants which are ever occurring unexpectedly, and which, therefore, cannot be provided for by the consumers. So great is the variety of the articles which an individual requires in an advanced state of society, that no one can possibly live within easy reach of all the producers who supply them; and though he can enter into an engagement with a farmer at a remote distance to supply the food which he requires in quantities which vary little from week to week, he will find it very inconvenient, if there were no place near at hand where he could obtain an article which he wanted on a sudden emergency. A Londoner may buy his poultry direct from a farmer in Norfolk, but he would be badly off, indeed, if he were accustomed to order his tea direct from China, and if his stock were to fail just after the departure of the mail-steamer. As an additional class of labourers is interposed between producers and consumers, the value, and, consequently, the price of each article is greater than it would otherwise be; but the greater cost is compensated by the greater convenience, and the distributors perform a function which is quite as useful and necessary as production itself. The wants of a large body of consumers cannot be supplied without the production of a great quantity, and its subsequent distribution; and, if consumers purchase direct from the producers, the work of distribution is not left undone, but is performed by the producers themselves, or by persons employed by them. The farmer who sends his milk to the private houses of the inhabitants of a neighbouring town has to employ people to carry the cans just as a milkman has to do, and if his business increases, he finds it difficult to give that supervision which this part of it requires without in some degree neglecting the rest. It then becomes profitable for a person to devote himself exclusively to the business of distributing the milk, and the advantages which accrue from the division of labour in production are obtained from the separation between production and distribution, the advantages being comprised in the fact that both kinds of work are better done.

If all bargains were concluded for ready money, and no engagement extended beyond a day, the money of the country would, by the mere fact of its being a medium of exchange, be proved to be fit for a standard of value. At the same time and place the prices of all commodities are in proportion to their value, and, consequently, a comparison of the prices is all that is required to determine how much of one commodity will exchange for a given quantity of another, and the money which is paid is of equal value with the article which is paid for. But when an article is bought on credit, *i.e.*, when he who obtains it gives nothing in exchange except a promise to give something else at a future time, it is important that this something should be of such a nature that its value will not alter before the bargain is concluded by its payment. If this something be money, as is almost always the case, it is desirable that the money should be incapable of changing in value; but, unfortunately, there is no commodity known to us which possesses this character, and mankind have been forced to content themselves with such as most nearly approach this perfection, while, at the same time, possessing the qualities which are requisite for a medium of exchange. All commodities are liable to fluctuations in their cost of production, and agricultural produce is especially so because of the great vicissitudes in the seasons, which frequently cause the value to double in a single year. If a man had received a quantity of cloth, and engaged to give for it a hectolitre of wheat twelve months afterwards, a bad harvest in the following year might double the value of wheat, and compel him to give what was really worth twice as much labour as the cloth which he had received. On the other hand, a favourable harvest might cause the margin of cultivation to fall so much that the portion of the crop which determined the value of the whole should be raised with only half as much labour as an equal quantity at the time when the bargain was concluded, and, in this case, if it were carried out to the letter, he who received the wheat will only receive one half of what he calculated on. Gold and silver are not so liable to sudden changes of value as agricultural produce, because there is always an immense stock of these metals in existence, and a long time is therefore necessary to effect a change in the value of the whole amount. Their durability is the principal reason why there is always a large stock of them in the possession of mankind, for as a gold coin is estimated to lose only one four-hundredth part by friction in a year, it is only necessary that one four-hundredth part of the whole stock should be raised in a single year. To raise so large a quantity as one-half, or even one-quarter of the whole stock in a single year would require so great a disturbance of industrial arrangements, and would require so many men to quit their old employments, that it cannot

be attempted, and yet this would be necessary to effect a sudden change in its value. Most manufactured commodities are so constantly liable to be cheapened by improvements, reducing the labour necessary to produce them, that they could hardly ever be used as a standard of value for any length of time. Labour, which, as Adam Smith has shown, is the best standard of value, cannot be used as a medium of exchange, because it would not be convenient for a person who had parted with a concrete article of great value to receive in exchange a promise of a great quantity of labour which would require a long time or a great number of labourers to perform. He wants the means of procuring the labour of others, but he does not want to have a number of labourers whom he must employ at a particular time, or in a particular way. It is quite possible, where a contract extends over a long period, to use labour as the standard of value, while still requiring that it should be fulfilled in money. A definite sum of money may be fixed on to be paid at the conclusion of the bargain, but a condition may be inserted that this sum shall be increased or diminished in the same ratio as the money-wages of common labourers shall have risen or fallen in the meantime. Thus it might be enacted that every one who holds a thousand francs in the national funds shall receive thirty francs interest for the first year; and that in the second year the Government shall be bound to ascertain whether the money-wages of some particular class or classes of labourers have risen or fallen since the loan was contracted, and that if it be found that wages have risen ten per cent., the fund-holder shall receive thirty-three francs, and so on, in proportion, and that the calculation shall be repeated every year. I am not aware that such a plan has ever been adopted by a Government with regard to its funded debts; but it is not unusual to insert in commercial contracts a clause providing that the contractor shall receive a higher price for his coals or other goods than that originally agreed on, if he should find it necessary to raise the wages of the workmen whom he employs. The fall which has recently taken place in the value of gold may render it worth while for statesmen to consider whether some such plan should be introduced for regulating the dividends on the National Debt, and the salaries of the public servants, so as to bring them into conformity with the ever-changing circumstances of the times. The colleges of Oxford and Cambridge have, for three centuries, been accustomed to use wheat as a standard of value, by requiring that one-third of their reserve rents should be a sum of money which should vary according to the market price of wheat on the days on which the rents become due. The practice has been chiefly useful by leading to the preservation of records of the price of wheat, which have been found serviceable by Economists

and statisticians, but it has not been of so much importance to the colleges as has often been supposed, and it has done little, if anything, to protect them from loss occasioned by the depreciation of money. The system pursued by the colleges in leasing out their lands was that of exacting a large fine on the commencement of a lease, and a small reserve rent during its continuance. This reserve rent was, of course, much smaller than the rent which might have been obtained if the land had been let in the ordinary way for as high an annual payment as a respectable tenant could be induced to give ; and it was only one-third of this sum which was regulated by the price of wheat. As the colleges always retained the power of terminating the leases, they could always raise the fines to such an amount as, when added to the rents, would afford as large a total as private landlords would receive for similar land ; and they could never have been in any danger of materially losing by the depreciation of the precious metals. The system is, I believe, gradually dying out, but private landlords have, in many parts of the country, arranged with their tenants that the money-rent of corn lands shall vary in proportion to the price of corn. But, whatever arrangements may be made with regard to leases, or other contracts, extending over a term of years, all bargains, which are to be concluded in a few weeks or months, will always be expressed in money ; and the values of gold and silver are sufficiently stable to serve as a good standard in all such cases, and as they are also good mediums of exchange they are doubly fitted for employment in all bargains, and are preferred in almost every country in the world.

It having been once decided that one or several metals shall be used as money, it is necessary that there should be pieces of different weights and sizes, to be used according as the things to be bought or sold are of greater or smaller value. In ancient times copper and silver were commonly melted into ingots or bars, which were always weighed before they were handed over by the purchaser to the seller of a commodity. The "libripens" or person whose business it was to weigh the bars of copper in a pair of scales, was an indispensable witness to a Roman testament, and the name was still retained in legal phraseology, long after the practice of weighing had become obsolete. Many of the names which are still used to designate sums of money, such as "pound," "livre," &c., originally meant a definite weight of silver, or some other metal; and were, no doubt, in use at a time when bars were commonly used. In China, at the present day, ingots of silver are largely used by the natives ; and even in Europe, gold bars frequently serve as a means of remittance from one country to another. But, as commerce increases, people find it convenient to have small pieces of metal which they can

use for small transactions, and which do not require the trouble of weighing; and as these are exposed to much friction in passing from hand to hand, it is desirable that they should be of such a shape as will expose them to as little friction as possible. This shape, as Say has observed, is that of a sphere, but this would be inconvenient, as the globes would be liable to roll away when placed on a table, or elsewhere, and could not be heaped up in any great quantity. It has been found, or, at least, considered by most nations, that the best shape is that of a very low cylinder; although, in Japan, a more oblong shape has been adopted. These pieces, whatever their shape, have some image or words stamped upon them denoting their weight, and to such stamped pieces the appellation of coins is applied. At first, gold coins were made of pure gold, or of gold as nearly pure as could be obtained; and such was the case with the bezants issued, as their name implies, by the Byzantine Emperors, and such is still the case with the "tomans" of modern Persia. Pure gold is, however, so soft, that coins made of it are liable to be bent in use; and to prevent the inconvenience thereby occasioned, it has long been customary in Europe and America to alloy it with a certain proportion of copper, usually one-tenth of the whole weight of the coin; but in the English coinage, only one-twelfth. Silver also is alloyed with copper, sometimes to the extent of one-tenth; but in the English coinage, to the extent of three-fortieths only. When alloying has been brought into use, the stamp on the coin serves to denote the fineness, as well as the weight of the metal, and thus performs a much more important service. It would be troublesome to weigh every coin, but every intelligent person is capable of using a pair of scales, and every house is provided with such an instrument. But in order to ascertain the fineness of gold or silver, it is necessary to perform a somewhat costly operation, which is called assaying, and for which some skill and great nicety are required. A very large quantity of alloy must be mixed with the pure metal in order to make such a difference in its colour as shall be perceptible to an unpractised eye, while a very small difference in the amount of the alloy would inflict a serious loss on those who should accept an inferior coin in place of one composed of purer metal. The stamp on the coin is thus intended as a guarantee to all who may receive it that it is really made of a certain definite quantity of one of the precious metals and a definite quantity of alloy; and thus to avoid all disputes respecting its weight or fineness. Thus a france is a piece of silver 835 fine (*i.e.*, the pure silver in which is to the whole weight as 835 is to 1,000), which weighs 5 grammes; the gold twenty-franc piece is a piece of gold 900 fine, and weighing 6.451 grammes; and every coin in the world has its own definite weight and fineness, by whatever names these may be

described by different nations, and by whatever name it may be called. There is nothing new in the statement that the stamp on the coin merely designates the quantity and quality of the metal of which it is composed, for it is stated by Aristotle, and the fact must always have been familiar to those who were entrusted with the task of coining money. It is only necessary to insist on it here, as many persons still have a vague idea that the Government interferes with Free Trade by fixing the price of gold, *i.e.*, by announcing the amount of coin which the Mint will give in exchange for a certain weight of bullion. They ask, Why the Government should fix the price of gold when it leaves the prices of bread and of all other articles to vary according to the conditions of the market? The answer is a simple one, viz., that to fix the price of gold is merely to state the weight and fineness of the coins which receive a particular denomination; while to fix the price of bread is to fix the ratio in which bread shall exchange for gold, and is often tantamount to compelling the producer to part with his produce for less than it is worth. When the French Government announces that the Mint will give 3,100f. for a kilogramme of gold 900 fine, it merely announces that 155 twenty-franc pieces weigh a kilogramme, and are all made of gold 900 fine. When it announces that a small sum will be deducted from the amount given out by the Mint, it merely announces that it will charge something for the labour which it performs in coining the metal. In like manner, the price which the British Mint fixes for all the gold bullion brought to it is merely a declaration that it will return an equal weight of pure gold to that which it receives, and will make a present of the requisite alloy to the person who brings the gold. The price of an article measured in itself is little more than a change of names, and it might be said that the Government fixes the price of flour because it fixes the weight of flour which is to be used in making the loaves of bread which are called by particular names. To what extent, and under what circumstances, the market price of bullion may vary from the Mint price, will be considered more at length in the next chapter.

It is necessary that some person or persons should undertake the business of manufacturing coins, and it is necessary that the public should have reason to trust in the capacity and, what is more, the honesty of those who undertake it. In every country where coins are used, the business is carried on by persons more or less subject to the control of the Government; and such has been the case from the most ancient times of which we have any record down to the present day. It has, therefore, been long regarded as one of the highest attributes of sovereignty to have the power of issuing coins. "Lord of the coin, and of the evening prayer," is the formula by which every Mahomedan

sovereign expresses his independence, while he acknowledges his nominal subjection to another ruler by assigning to him that honourable title. "Petty treason" was the name given by English law to the heinous offence of counterfeiting the king's money. It requires a considerable mental effort even to conceive it possible for private enterprise to supply a people with money, but a thinker who shrinks from no consequences to which his principles lead, Mr. Herbert Spencer, has ably maintained * that it is not only possible, but extremely desirable, for this to be done. He contends that a private manufacturer would carry on the business at a smaller cost, and the public would thus be spared part of the expense which they must now bear in order to maintain the coinage. He contends that it is a violation of the rights of individuals for the Government to dictate to them what they shall receive in payment of their debts, or in what manner they shall pay them. On this point, however, it must be borne in mind that, in order that the State may properly enforce the fulfilment of contracts (a duty which Mr. Spencer fully recognises as incumbent upon it), it must define the meaning of the coins in which most contracts are expressed. So far as this goes, the State must exercise as much control as will enable it to ascertain that the coins are what they profess to be; but it by no means follows that it must perform the work of coining by its own agents. Whoever carries on the business is exposed to the temptation of issuing coins which are of less than the proper fineness, and the servants of the Government are no more incapable of sinning than other men. Governments have usually undertaken the task because they have been supposed to be incorruptible, but they have debased the coinage too frequently for such a notion to be any longer entertained. If the work were performed by private firms we should have quite as much security as at present that it would be properly done. As Mr. Spencer says:— "Competing firms would assay each other's issues whenever there appeared the least reason to think them below the established standard; and should their suspicions prove correct, would quickly find some mode of diffusing the information. Probably a single case of exposure, and the consequent ruin, would ever after prevent attempts to circulate coins of inferior fineness." (p. 401, first edit.) The only security which we in England at present possess in this respect is derived from the ancient ceremony called the Trial of the Pyx, which, since the passing of the Coinage Act in 1870, has been held once a year, and at which specimens of every kind of coin issued by the Mint during the last twelve months, are weighed and assayed by a jury of goldsmiths; that is, of persons

* Social Statics, chap. xxix.

quite independent of the Mint authorities. An unfavourable verdict would be followed by the imposition of a heavy fine on the Master of the Mint; and no such verdict is mentioned in the records of the exchequer which embrace the last two hundred and fifty years. If coins were issued by private firms, the largest quantities would, as at present, be demanded by bankers, and these could easily require the coiners to submit to some test similar to that to which the mint authorities are now subjected. There is, however, one advantage which may be, though it is not always, obtained from entrusting the business of coining to the Government, which will probably be thought to outweigh all the disadvantages of the system. The Government may take upon itself all the loss which is occasioned by the wear and tear of the coin, and may thus spread over the whole community a loss which is inevitable, and for which no individual can be considered as more responsible than any other. If a private firm certifies that a particular gold coin weighs four or eight grammes, it may justly be compelled to receive it in payment of any debt to the extent of four or eight grammes of gold; but it cannot be reasonably expected to receive it at its nominal rate when it has lost fifty milligrammes by constant friction, and, in fact, no longer weighs the certified weight. Still less can a private firm be expected to issue new coins in exchange for any equal number of worn ones which may be presented by the holders. But a Government can undertake this task, for it can always obtain the necessary funds from the taxes, and the English Government does undertake it as far as the silver coins are concerned. If this is not done, the coins commonly pass as if they were of full weight even when they are considerably worn; but every now and then some bank or Government office weighs the coins, and refuses to accept the light ones except at a rate reduced in proportion to the deficiency. Thus it often happens that the last holder has to bear the whole loss caused by the friction to which he has contributed but an infinitesimal part; and this seems so unjust that people generally desire to throw it on the Government by requiring it to receive all coins by tale, and to give new ones in exchange for worn ones whenever presented for that purpose. This course was recommended, on the score of justice, by Say, but he does not seem to have been aware of the common objection that it would encourage the "sweating" of the coin, *i.e.*, the reduction of their weight for fraudulent purposes, which is even now practised to some extent, and which, if it became common, would throw a very serious burden on the Government. There was a controversy on this subject in the columns of the "Times" in the year 1871, when the probability of sweating was, of course, made the principal objection to the proposal that the Govern-

ment should accept old and new coins at the same rate. A correspondent writing to that paper on October 25, who signed himself "A Banker," stated that this objection was of no great force, because a practised eye could readily distinguish between coins which had been sweated and those which had been fairly worn. Although the writer was anonymous, and though his statement was disputed by Mr. Seyd, I can hardly suppose that it would have been so confidently made if it had not been supported by good evidence; and if it is correct, there can be but little objection to the proposed change beyond that of expense. Of course, the Mint, or the Bank of England, or whoever may be entrusted with the business of withdrawing old coins from circulation, can command the services of persons who are acquainted with the secret which will enable them to reject the sweated coins; and this will be sufficient to prevent sweating from being practised on a large scale. Against its being done on a small scale the public will, at least, enjoy as much protection as at present. At present the loss consequent on the wear of the gold coins is principally borne by country bankers, who naturally complain of the burden, although, as they find it profitable to carry on banking notwithstanding, it does not seem that they have very much to complain of. The weight of a sovereign when issued from the Mint is 7.988 grammes, and it is allowed by law to circulate until it has lost 51 milligrammes, after which every person to whom one is tendered is ordered to cut it so as to prevent it from circulating any longer. No penalty is, however, provided against those who do not comply with the law, and it is seldom enforced except by bankers and Government offices. Even the Bank of England, which is more strict than other banks in enforcing it, does not think it worth while to weigh sovereigns when presented in ones or twos, but only when brought in large numbers. Country bankers find that it is most convenient both to themselves and to their customers to receive without weighing all the sovereigns which are paid into them; and they pay out the light ones again, and feel no inconvenience as long as their transactions are confined to their own districts. But when, in order to settle their accounts with the London bankers, they find it necessary to remit sovereigns to London, the coins are only received according to their weight; and the loss falls, of course, on the country bankers if their is any deficiency. A sovereign which weighs less than 7.937 grammes is not legal tender, but is regarded as a mere piece of bullion; and a person who presents one which weighs, *e.g.*, 7.925 grammes, loses the whole difference between its weight and that of a full sovereign of 7.988 grammes, although no objection can be made to receiving one weighing 7.937 grammes. It is, therefore, the interest of country bankers to pick out the heaviest sovereigns for remittance to

London, and to keep the light ones in the country. Mr. Jevons, in a paper on "The Condition of the Metallic Currency of the United Kingdom with Reference to the Question of International Coinage," read before the Statistical Society in November, 1868, mentioned that during the year ending on the 30th September previous, one large bank had lost 150,000f. by receiving light gold coins, in spite of the care which may be presumed to have been taken to cull out the heavy ones. The statistics which he furnishes show that the deterioration of the coin is very great in the agricultural districts. Unless the Government undertakes to manufacture coins there seems no reason why it should give new in exchange for worn ones; but if it does undertake the one, there are certainly reasons of public convenience why it should undertake the other. When the German Government, at the close of 1871, announced its intention of introducing a new gold coinage, it announced that it would bear the expense of the wear and tear of the coins, and whatever reasons are sufficient to recommend this course in Germany are equally applicable to other countries.

Mr. Spencer, in the chapter already referred to, mentions that certain facts, which he was not at liberty to publish, had been communicated to him which afforded convincing proof that coining could be carried on more economically by a private firm than by the State. The public have now an opportunity of judging for themselves as to the capacity of the British Government to carry on the business, for Mr. Ansell's work* on the Mint affords as full information as could be desired respecting every detail of the operations of the Mint, and its frequent references to the management of the private Mint of Messrs. Heaton & Son, of Birmingham, enable the reader to compare a public and private establishment, the result of the comparison being decidedly unfavourable to the former. Mr. Ansell was formerly employed in the Mint, but the Mint authorities thought proper to dismiss him some years ago, and it would be, of course, unfair to condemn them solely on the testimony of a man who has been irritated by the loss of his place. But the generally unfavourable judgment of Mr. Ansell is supported by the more impartial testimony of Mr. Seyd, who has devoted one chapter of his work already mentioned to a "Criticism on the British Mint." Since his work was published, Mr. Seyd has, indeed, expressed in the "Times" his opinion that a great improvement has taken place in the management of that institution, but the fact remains that it was very defective in 1868. That the defects are owing to the monopoly which, as a State institution, it enjoys, may be inferred from Mr. Seyd's criticism on the Paris Mint,

* "The Royal Mint," by G. F. Ansell. Effingham Wilson, 1870.

which is nearly as unfavourable as that on the Mint of London. It may, moreover, be presumed that it is owing to the Mint authorities themselves that they have not been heard in their own defence. On May 5th, 1871, Lord Kinnaird moved in the House of Lords for a Committee to enquire into the past and present management of the Mint, and prefaced his motion with a long speech, showing a minute acquaintance with the technicalities of the question, and calling attention to several faults, or what he deemed such, in its management. But his motion was opposed by the Government, and meeting with no support from the opposition was negatived without a division. Applying the principle of "Cui bono?" we may presume that the resistance to the motion was prompted by the officials of the Mint, and they have no one but themselves to blame if judgment is given against them by default. Lord Kinnaird has, I believe, made other attempts to obtain an enquiry, but all of them have met with the same fate, it may be presumed from the same cause. The objections which have been raised to the present management of the Mint may be classified under three heads: that the building is inconvenient, that the machinery is not of the best kind, and that great waste takes place in its operations. As to the first of these objections, it is admitted on all hands to be well-founded, and a Bill was actually brought into Parliament by Mr. Lowe, in 1872, to authorise the sale of the present building and the erection of a new one better adapted to the work to be carried on. The Bill, however, was rejected by the House of Commons, apparently on the score of expense, although the evidence taken before the Select Committee showed that a sufficient sum could be raised by the sale of the old site to purchase a new one and erect and furnish a new building. It is not, therefore, owing to the Mint officials that the present inconvenient building on Tower Hill is retained, but it is owing to the Government, though to another branch of it. As to the machinery, it is sufficient to mention here that both the writers to whom I have referred recommend that a lever-press should be substituted for the screw-press which is now used for stamping the coins. This improvement may, for aught I know, have been already effected, but it had not when I visited the Mint in November, 1871, more than three years after the publication of Mr. Seyd's work. As to the third head, there is one practice referred to by Mr. Ansell which strikes the unlearned reader as so wasteful that I cannot avoid mentioning it. An ingenious automatic balance is in use which rejects both the coins which are too heavy and those which are too light, and distributes them into separate compartments, and all which are thus rejected are melted down again. With the light ones this is unavoidable, but Mr. Ansell, when he was in the Mint, saw the means of avoiding it in the case of the heavy ones. He had the "blanks"

weighed before being stamped, and then had the edges of the heavy ones filed down to reduce them to the proper weight. By this means an economy was effected equivalent to the difference between the little labour required for filing, and the great labour required for repeating every process, from the melting to the stamping of the coins. Yet the old plan has again been adopted of weighing the coins instead of the "blanks," and as the edges of the coins cannot be filed without spoiling their appearance, the waste of labour is again submitted to. This was the case at the period of my visit to the Mint, but I am not aware whether it is still the case, or whether the officials have any reason to urge in defence of it. Neither can I venture to pronounce a decided opinion on this or any of the matters, many of them personal, to which Mr. Ansell refers, but will content myself with observing that the general effect of the perusal of his work is to leave on the unprofessional reader the impression that the Mint is not so well managed as a private one would be. The Lords of the Treasury have more than once called the attention of the Master of the Mint to the unsatisfactory state of its management, and have threatened to adopt the system of private contracts, unless some thorough reform could be introduced. Previously to the year 1851, the work of coining was intrusted to a semi-independent corporation called "The Moneyers of the Mint," who worked in the government building, but contracted to do their work for a stipulated price. The suppression of this ancient body does not seem to have been attended with advantage, and, on the whole, I incline to the opinion that it would be better to entrust the business of coining to a private contractor, or to two or more contractors. There is too little work to be done to admit of many competitors in the trade; but if part were entrusted to Messrs. Heaton and Son, and part to a London firm, there would be enough competition to insure the adoption of the latest improvements, both in the machinery and in the processes employed. Already, it has been found necessary to call in the assistance of Messrs. Heaton and Son to produce a great number of silver and copper coins, or rather "blanks," for the actual stamping is always done at Tower Hill. The Bank of England is the principal channel by which coins are issued to the public; and, if the directors were free to obtain them wherever they chose, they would of course require the manufacturers to submit to the trial of the Pyx, or some equally satisfactory test.

CHAPTER II.—VALUE OF MONEY.

QUANTITY OF MONEY—AMOUNT OF BUSINESS DONE—EFFICIENCY OF CIRCULATION—PROPORTION OF COIN TO PAPER—SLOWNESS OF A CHANGE OF VALUE—PRICE OF BULLION—ACCESSIBILITY OF THE MINT—SEIGNIORAGE—PROHIBITION OF MELTING—PAYMENT BY TALE—INCONVERTIBLE NOTES.

THE value of gold, as of all other commodities, depends on the quantity of labour required to produce it; and the quantity which a people possesses is determined, as is that of all other commodities, by their power of producing it for themselves or of giving other things in exchange for it. A certain quantity is required in order to carry on the exchanges effected by the people, and a class arises which makes it its special business to supply this want. There can never be any reason to fear that a people which has anything to give in exchange for it can be permanently in want of gold, any more than that it can be in want of cloth, of wood, or any other commodity; for the private interests of those persons who, whether natives, or foreigners, are in possession of gold mines, and of the means of working them, will induce them to bring their gold to market and exchange it for the products of those who want it; and the gold miners themselves must feel the want of food, clothing, and other things which gold itself cannot furnish them. Nothing can be more foolish than for a government to endeavour (for it cannot do more than endeavour) to prevent the export of gold from a country, or to encourage its importation. Such attempts have been made in order to increase the wealth of the country; but, even if they were successful, they could in no way increase wealth, for no want would be satisfied which was not satisfied already; and as the quantity of labour exerted by the people would remain the same, the value of its total produce would remain the same also; and, if more money were used to exchange it, it would be evident that money itself had fallen in value. Locke attempted to estimate the quantity of money which a people requires, and took as one of the elements of his calculation the rate of wages, contending that there ought to be enough money at any one time to pay one week's wages to all the labourers in the country. Suppose that this sum were 100,000,000f., but that the Government could compel people to use 200,000,000 f., the consequence would simply be that money would be

reduced to half its value. This is exemplified when a Government issues notes which profess to represent sums of money, but which cannot be exchanged for coin at the pleasure of the holders, and compels its subjects to receive them in payment of all debts. So long as the Government confines its issues to the amount of the coin which was formerly used by the people, no change takes place in the rate of wages, or in the prices of commodities; but when it attempts to force a larger quantity of notes into circulation, the notes become depreciated in proportion to the excess; and wages, and prices, if estimated in paper are proportionally raised. Such is the case with the "greenbacks," or treasury-notes issued by the Government of the United States, which are now depreciated to the extent of about 10 per cent., and which, when issued in larger quantities during the civil war were not worth more than half of the quantity of coin which they professed to represent. Similar notes were issued by the Government of the Confederate States, during the same war, with such reckless profusion that they fell to one-hundredth part of the value of the same nominal sum in gold. Such facts have often been noticed, both in our own day and in former times, and have been held to establish the theory that the value of money varies inversely as its quantity. Properly understood, the theory is perfectly accurate, as is also the converse proposition that the quantity of money varies inversely as its value; but, as has so often happened with the generalisations of Political Economy, the theory has often been applied to actual facts without regard to the necessary qualifications, other things being equal. If two persons have to exchange the product of a day's labour and to use money in the transaction, it is clear that if two grammes of the metal employed are worth a day's labour, twice as much metal will be used as if one gramme were worth a day's labour. Two grammes will be required because they are worth the article, and two grammes will be worth the article because they are worth the same quantity of labour. But when from an individual case we proceed to generalise respecting the requirements of a populous country we must bear in mind that there are many circumstances which may affect the result, although by no means inconsistent with the theory. These circumstances are, mainly, three: the amount of business done, the efficiency of circulation, and the proportion which bank notes and other forms of paper credit bear to the quantity of coin in the country. I proceed to examine these in detail.

If the same people have a greater quantity of business to transact at one time than at another, they will require a greater quantity of money for the purpose, even if its value remains constant. This is so obvious that it would seem hardly necessary to insist on it here, and yet it has been repeatedly ignored by writers on the currency. The returns

published by the Bank of England show that the amount of its notes which are in circulation is constantly varying, and is generally larger in those months in which the dividends on the public funds are paid than in other parts of the year, and these augmentations have been gravely spoken of as producing a fall in the value, not only of Bank of England notes, but of those of other banks, and of coin. The fact is, as is well known to all persons who are engaged in business, that much more business is done at these periods than in the intervening months. Not only are the dividends paid on the public funds, but railway and other companies pay the dividends on their shares and debentures; foreign Governments pay the interest due to English holders of foreign stocks; a large number of commercial bills fall due, and the richer classes choose the same time to pay their tradesmen's quarterly bills. To effect all these payments a larger quantity of money is required, and the mere fact that it is used in one month rather than another has, and can have, no effect on its value. The returns of the Scotch and Irish banks show similar fluctuations in the amount of their issues, and these occur in the same order year after year, and correspond with the known fluctuations in the trade of the country, the amount rising at those times when more produce is sent to market, and falling when the contrary is the case. In all such cases the increase in the quantity of money is the consequence of the increase in the value of the commodities exchanged, and affords no proof that the value of money has fallen.

Even where there is the same amount of business to transact, a change may take place in the habits of the people which may enable them to perform it with a smaller quantity of money. The circulation may be rendered more efficient, or, in other words, a coin may change hands more frequently while performing the same amount of business. As the function of coin is to circulate from hand to hand, it does its work better in proportion to the frequency with which it changes hands; and, other things being equal, any change which should have the effect of increasing the efficiency of its circulation would be an improvement. Locke, as before observed, argued that there ought to be sufficient coin in the country to pay one week's wages to all the labourers. This is, of course, assuming that wages are paid weekly, in which case, as he justly observes, the coins must be either in the hands of the labourers themselves or of their employers. If all the labourers receive their wages in coin on the same day of the week, the payment cannot be effected with less than the whole amount of their wages. During the remainder of the week the coins are gradually passing from the hands of the labourers to those of the tradesmen with whom they deal, and from the tradesmen back to the employers; and if every labourer spent the whole of his

wages in the week, the coins might suffice for the double purpose of paying and of spending their wages. But if it became customary to pay wages daily, one-sixth of the quantity of coin might suffice for the work. The rate of wages being the same as the coin received on Monday might find its way back to the employers in time to pay the wages on Tuesday, and thus the efficiency of the circulation would be increased. I do not say that such a change is desirable, for there are other circumstances to be taken into consideration, as, *e.g.*, the greater quantity of labour which would be necessary to effect such frequent payments, but merely give it as an example of the way in which an economy of coin may be effected. In collieries and other mines it is a common practice to pay wages once a fortnight, and even as seldom as once a month; and the system has been objected to on the ground that it compels the workmen to resort to the use of credit, while it is defended by the employers on the ground that, as the men always get drunk on pay day, the fewer there are of such days the better. If, however, the attention which has been directed to the evils of the system should produce its abolition, some, though perhaps a slight, economy, will be effected in the use of coin.

The most important change in the habits of a people which can effect a change in the quantity of coin used, when coin itself has not altered in value, is an extension or diminution of the use of paper currency in its various forms. In every civilized country a large portion of business is transacted by means of bank notes, cheques, bills, and other pieces of paper, which merely represent a certain quantity of coin. If a people, which has been accustomed to effect all payments by means of coin, should suddenly introduce a quantity of notes of an amount equivalent to the whole of the coin previously in use, they can dispense with coin for all payments amongst themselves, although some may be required to pay debts to foreigners, and they can thus save nearly the whole of the coin which they formerly required. Such a change cannot be suddenly effected, except by the command of a Government which compels all its subjects to receive its own notes, or those of some favoured bank in all business transactions; and a Government is then said to establish a forced currency. But such a change may be gradually brought about by the increase of banking without any interference of the Government; and Scotland affords an instance of a country in which all payments are effected in bank notes, except those which are of a smaller amount than 25f.; and the only reason why they are not used for smaller payments is, that that amount has been fixed by law as the smallest for which a note can be issued. In England no notes may be issued for smaller sums than 125f., and this is also considered as the smallest sum for which cheques should be frequently drawn; but as there is no legal limit in

their case, smaller cheques are occasionally used. As the stamp tax is the same on all cheques, whatever their amount, the law virtually discourages small cheques, although it does not absolutely forbid them. A great extension has been given of late years to the use of cheques in this country, but since the passing of the Bank Act in 1844 there has been no increase in the quantity of bank notes which has not been accompanied by an equal increase in the reserve of coin held by the banks which issue them. Although, therefore, there has been an actual increase in the amount of notes in circulation, there has not arisen from this cause any change in the proportion of coin to paper.

On the other hand, other causes have been at work which have tended to increase the use of coin. One of these has been the growth of co-operative societies, which almost always require ready-money payment, and therefore require that large quantities of coin should be used, while if similar articles are purchased at ordinary shops, and paid for at the end of the quarter or the year, the payments are more usually effected by means of notes and cheques. Thus, while I have said that the frequent payment of wages diminishes the quantity of coin required in a country, I contend that the frequent payment of tradesmen by their customers increases the use of coin. This may seem inconsistent, but it must be remembered that I have assumed that quarterly, or annual, bills would be large enough to require notes or cheques to be used in paying them, while I have assumed that a week's wages are too small a sum to be paid otherwise than in coin. If a collier's wages are as high as 125f. a month, less coin would be required to pay his wages monthly than fortnightly, because, in the former case, bank notes could be used, and in the latter they could not. A system has been in use for centuries of paying the labourers engaged in mines not in coin, but in goods, or in tickets, which can only be exchanged for goods or money at certain shops. Many Acts of Parliament have been passed at different periods, from the reign of Edward the Fourth down to that of Queen Victoria for the purpose of suppressing this, which is known as the "truck" system, as it is considered to be very injurious to the labourers themselves. It is obvious that if a labourer is obliged to deal with a particular shop for all that he requires, he is in a great measure at the mercy of the shopman; and there is abundant evidence to show that the labourers who are in this position are abominably cheated, both as regards the quality and the quantity of the goods which they purchase. To save them from such an imposition is, no doubt, highly desirable, but even if the Mines Regulation Act of 1872 should have the effect, which no previous Act of the same kind has yet had, of abolishing the "truck" system in all its forms, it may be doubted whether the labourers who now suffer from

it will be materially benefitted. The plan at present pursued by employers who keep up a form of truck is to advance to the labourers a portion of their wages before pay-day, and to advance it in the form of tickets, which can only be exchanged for goods at a store which is kept by the employer, or by his agent. When pay-day arrives, the man receives his wages in coin; but as he receives them he is obliged to redeem the tickets which he has formerly received; so that he may, in fact, carry away a very small portion of his wages, or, indeed, none at all. Thus, the cause which compels the men to submit to the system is their want of a sufficient stock of money to enable them to obtain what they want during the three, four, or five weeks which may elapse before pay-day arrives. Even if truck be abolished, yet, if pay-day comes no oftener, there will still be many men who will be forced to obtain credit from the local shops; and when they are once in debt they will be virtually obliged to deal at the same shop, and will be as much exposed to imposition as at present. What, however, concerns us here is, to observe that the "truck" system has already been discontinued in many places, and that its discontinuance, though on the whole beneficial, tends to the employment of a larger quantity of coin.

The several causes above enumerated have been tending in opposite directions to increase and diminish the quantity of coin in use in this country. On the whole, the preponderance has probably been in favour of an increase in the quantity of coin, consequent on the great increase of business which has taken place during the last quarter of a century. But even if these causes had not been in operation, or had operated in opposite directions, and had neutralised one another, there would still have been an increase, because the value of the precious metals has fallen since 1850. I have endeavoured to show that there has been a rise of about one-third in the average rate of wages, and this must have produced a proportional increase in the prices of the commodities bought and sold in the country, and this, in turn, an increase of the nominal amount of money used to pay for them. Indeed, unless some means are devised of substituting credit for coin, or of increasing the efficiency of the circulation of coin, the prices of all commodities cannot rise unless the quantity of coin be increased. If higher prices cannot be paid except in coin, and if there is no more coin to pay them with, it is evident that higher prices cannot be maintained. Hence the slowness of the fall in the value of the precious metals which is now taking place. Mr. Jevons, in the paper before referred to, estimates the total quantity of gold, silver, and copper coin in the United Kingdom as rather under two and a half milliards of francs, and if wages should rise to the extent of another third, as I have given my reasons for anticipating, a further sum

of eight hundred millions will be required for our currency. This sum is less than that which we import on an average every year, and if we did not export it again, one year would be sufficient to effect a proportionate change in the value of money. But we cannot retain what we receive, because as soon as a slight rise of prices is perceived in England it immediately becomes profitable to import commodities from foreign countries, and to export gold and silver to pay for them, so that England is, in fact, obliged to act as a feeder for the rest of the world. A few months sufficed to effect a four-fold rise of wages and prices in Australia and California, because those countries only contained a few thousand inhabitants, and the limited quantity of coin which their trade required could very soon be produced. Those who were actually engaged in gold mining could at once obtain higher money-wages in proportion to the quantity of gold which they produced, and other classes could soon obtain a proportionate rise by engaging in mining themselves, or by demanding a rise if they remained at their former occupations. But although the gold discoveries did produce a considerable emigration from Europe to the gold countries, they did not, and could not, produce such an extensive exodus of labourers as to bring wages to the same level at both extremities of the world. In spite of all that has been said and written about the superior position which a working man can obtain by emigration, the fact remains that a man is, of all commodities, the most difficult to move, and the number of emigrants still bears but a small proportion to the population of the countries which they leave. The whole quantity of gold produced in the world during the period 1848-71 was twelve and a half milliards, while the whole stock previously in existence has been estimated at fourteen milliards, so that it has been nearly doubled during that period. This shows, either that the absorption has been much more than in proportion to the change in its value, or that the estimate of the previously existing stock was too low. But the change, however slow, is still continuing, and will not cease until the value of gold and silver shall have fallen in proportion to the diminution in their course of production.

Hitherto I have spoken of the changes in the value of money which are co-incident with similar changes in the value of bullion, having their origin in the difficulty of producing the metals themselves. I have now to speak of those slighter variations which may affect the value of money without affecting that of bullion, or may affect that of bullion but not that of money. The proportion which the values of coin and bullion bear to each other is shown by the price of bullion, and if this price varies, it shows either that the value of coin has altered while that of bullion has remained constant, or that that of bullion has altered while

that of coin has remained constant, or that both have altered in different proportions. That the price of silver measured in gold, or the price of gold measured in silver, should vary from time to time can excite no surprise, for the cost of producing each of these metals is liable to vary, and there is no reason why the variations should take place in both cases to the same extent, or even in the same direction. But the case which I am here considering is that of a metal whose price is measured in coins made of the same metal, and in such a case it is clear that both the coin and the bullion must be equally affected by all changes in the cost of production. As was before observed, a coin is a piece of metal which has a stamp impressed on it to denote its weight and fineness, and the statement that a kilogramme of gold is worth 3,100f. is but one way of saying that 3,100f. weigh a kilogramme. There could, in fact, be no fluctuations in the price of bullion if there were no obstacles to prevent bullion from being instantaneously converted into coin whenever this was desired, or to prevent coin from being as speedily converted into ingots. If the holder of a kilogramme of gold 900 fine could at any moment take it to the Mint, and at once receive 3,100f. in exchange for it, no one would sell a kilogramme of gold for any smaller sum of money. If, on the other hand, the gold coins which represent the sum of 3,100f. weighed exactly a kilogramme, and were all 900 fine, no one would give that sum for any smaller weight of bar gold of equal fineness than a kilogramme when he could obtain that weight by simply melting down the coins. In practice, however, this perfect equality is very rarely realised; and I have now to give in detail the various circumstances which prevent, or may prevent, its attainment.

Even when the Government undertakes to coin bullion for its subjects free of charge, it can hardly avoid interposing some delay between the receipt of the bullion and the issue of the coins to the person who has brought it. The English Government promises to give gold coin to every one who brings bullion to the Mint, and to make no charge for its trouble; or, in other words, to return the same weight in gold coin which it has received in bullion, but, in practice, gold is scarcely ever sent to the Mint except by the Bank of England; and the holders of bullion are content to take it to the Bank, and to receive immediate payment of a somewhat smaller sum in bank notes than they might obtain in coin from the Mint. Colonel Tomlin is, I believe, the only private individual who has sent gold to be coined at the Mint for many years past; and he did so, not as a matter of business, but in order to establish a principle. The Mint requires twenty days for the process of coining, and those who take bullion there must submit to this delay before they receive their money; and this is equivalent to a loss of the interest

which they might obtain if their property were not locked up during that time; and this furnishes an inducement to the bullion-dealers to repair to the Bank of England, where they can obtain prompt payment, rather than to the Mint. Mr. Seyd, in a pamphlet* published in 1868, has called attention to various other circumstances which deter the bullion-dealers from sending gold to the Mint, such as the inconvenient situation of the building, which is at some distance from the business quarter of the city, and the regulations as to the weighing of the ingots, their size and shape, and other matters which need not be specified here. The result of the whole is, that gold is always sent to the Bank of England, which institution has been, since the passing of the Bank Act in 1844, obliged to buy bullion from all who choose to bring it at the rate of £3 17s. 9d. per ounce troy, British standard, or 917 fine. The Bank sends the bullion which it buys to the Mint, and receives coin at the rate of £3 17s. 10½d. per oz., or, in other words, receives an equal weight in coin to what it has sent in bullion, so that the Mint, which is a State institution, performs its labour gratis, while the Bank, which is a private company, makes a profit on the transaction. Reduced to French weights and French money, the Mint price of gold is 3,100f. per kilogramme, 900 fine, and the Bank price 3,095f., or a few centimes less. As coin is more convenient than bullion for the purpose of paying debts, the holders of bullion are generally willing to sell it to the bank at the above-mentioned rate, although they then receive a smaller weight of gold in exchange for a larger one; but it sometimes happens that large quantities of bullion are required for foreign remittance, and at such times the price of bullion rises above the rate fixed by the Bank, and varies between that rate and that of 3,100f. a kilogramme. Beyond this latter point it cannot rise, because any one who holds 3,100f. in coin can obtain a bar of gold weighing a kilogramme by simply melting them down; but between these two points slight fluctuations may and do occur. It is hardly necessary to say that at such periods little or no gold is taken to the bank, which never alters its terms.

One of the inconveniences mentioned by Mr. Seyd as attendant on the Mint, is its situation at a distance from the business quarter of the city, and he suggests that another building should be established in a more suitable locality. But the inconvenience here referred to is as nothing when compared with that to which the people of Australia were exposed when gold was first discovered there. As it was not previously known that gold could be found there in large quantities, no Mint had been established there, and the nuggets could not be converted

* Question of Seigniorage, &c. Effingham Wilson.

into coin until they had been sent to the other end of the world, Australia being a dependency of Great Britain. Several months were required for the transmission of the bullion and the specie, and during this interval Australia presented the curious anomaly that, while gold was plentiful, gold coin was scarce. Gold had fallen in value, but the gold coins were wanting which could pay the higher prices; and to remedy the inconvenience thus occasioned, the newly-constituted Parliament of South Australia passed an Act authorising the banks to issue notes in exchange for the deposit of bullion. These notes were, of course, expressed in coin, but might be redeemed in bullion; and such was the scarcity of coin, that persons who brought an ounce of bullion to a bank were willing to accept in exchange notes to so small an amount as £3, or even less. So remarkable a discrepancy between the prices paid for gold in Australia and England (where it was then, as now, £3 17s. 9d. per oz.), could not fail to attract public attention, and it was regarded by some mercantile men as showing that the gold discoveries were making gold cheap, in the sense of reducing the price of bullion. The discoveries did make gold cheap, for they caused it to lose much of its power of commanding labour, but it was merely an accident that they had the effect of lowering its price. The cheapness or dearness of gold in no way affects its price when measured in itself, any more than the cheapness or dearness of wheat affects the quantity of flour to be used in making a quartern loaf. The fall in the market price of gold bullion was merely the result of a temporary difficulty in getting gold coined, and the phenomenon ceased as soon as its cause was removed by the transmission of a large quantity of coin from England to Australia. Mr. Newmarch, in a pamphlet which he published in 1853, after mentioning the prices of gold bullion in Australia, and the rates charged for conveying it to England, observed :—"Taking into account the cost of insurance, freight, commission, and charges, it is very doubtful whether, to yield a profit, gold bullion can be consigned from Australia to London at a higher buying price than 67s. to 68s. per oz. The last advices give the price as 77s., but that cannot last."* If Mr. Newmarch meant to say that gold would not be exported from Australia to England unless its price was as low as the rate which he assigns, he was mistaken, for the exportation has continued ever since, although the price of bullion has long been the same in Australia as in England. It has continued because Australia required English commodities, and had nothing else than gold to exchange for them on such profitable terms, because the prices of commodities were lower in Eng-

* New Supplies of Gold, p. 56.

land than those which must have been charged for similar commodities if produced in Australia. The bullion-dealers were obliged to send gold to England in order to discharge their liabilities in this country, and whatever the freight and insurance might have been, it would still have been necessary for them to send it. So far is it from being true that 77s. an oz. was too high a price to last, that a much higher price has been constantly paid for many years. It is possible, however, that Mr. Newmarch merely meant that a margin of 10s. an oz. must be left between the prices of bullion in Australia and England in order to render it profitable for English speculators to buy bullion in Australia and send out coin in exchange, and with such a proposition I have no wish to quarrel. Mints have now been established at Sidney and Melbourne, and are sufficiently accessible to the gold miners of New South Wales and Victoria to prevent any wide deviation from the Mint price from occurring; but Mr. Kennedy mentions in his "Four Years in Queensland," that in 1866, when gold was first discovered in that colony, it was sold at the diggings for as low a price as £3 8s. the oz. This would show that the Mint of Sidney was then as inaccessible to Queensland as London formerly was to New South Wales, unless, indeed, the gold was of very inferior quality; and Mr. Kennedy does not specify the fineness. It must always be borne in mind that, when the Mint price of gold is spoken of, gold of a certain fineness is always referred to; and when Mr. Trollope, in his account of "Australia and New Zealand," speaks of the price as varying between £3 15s. and £4 2s. an oz., he obviously refers to gold of different qualities, as the latter price could only be paid for gold much finer than the British standard. As before observed, an ounce of standard gold is coined into no more than £3 17s. 10½d., and a holder of £4 2s. in coin could obtain much more than an ounce of bullion by melting down the coins.

The Mint may be ready to coin all the bullion which is brought to it and yet, those who bring bullion may not receive back as much as they have brought, but something may be deducted for the benefit of the Government. To this deduction the name of "seigniorage" is commonly applied. Strictly speaking, perhaps, this name should only be applied to a tax levied by the Government on the bullion over and above the expense of coining, and the name of "Brassage," or "Mintage," should be given to the charge which is merely equivalent to the expense of coining; but it is more common to comprise under the same name all deductions made by the Government, whatever be their reason. In England, the Government charges nothing for coining gold, but in France a charge is made of 6f. 70c. for every kilogramme (900 fine) so that those who bring bullion receive only 3,093f. 30c. per kilo. This

is the actual price which the Government pays to the Directors of the Mint for coining, so that the French Government does not make any profit by the transaction. The Bank of France, though not legally compelled to do so, buys bullion from the public at the same rate as that paid by the Mint, and we may say that the price of bullion in France is 3,093f. 30c. the kilo. Thus here again there is a difference between the values of the same quantity of gold when in the shape of coin and in the shape of bars, because coin is more convenient than ingots to all those who have payments to make, and as more labour has been expended on the coins, their value is proportionally greater than that of the ingots.

The discussions which have recently taken place concerning the proposal to levy a seigniorage on the gold coin of this country have disclosed the fact that many persons are unable to understand that its imposition would have the effect of increasing the value of the coin. Although all Economists who have treated of the question, from Adam Smith to Mill, have maintained that it would have this effect, yet many persons imagine that the value of a coin depends solely on the weight and fineness of the metal which it contains. Even Mr. Bonamy Price (in an article in Fraser's Magazine, in November, 1871) speaks contemptuously of Mr. Lowe becoming the mouthpiece of certain people who suppose that the law can give the value of twenty shillings to that which does not possess twenty shillings' worth of value. The proposal which gave rise to the discussion was one emanating from the French Government, that the English sovereign should be assimilated to the twenty-five-franc piece, which the French Government proposed to issue. The weight of the present sovereign is 7.988 grammes, and as one-twelfth part consists of alloy, the quantity of fine gold is 7.323 grammes. The proposed new coin would weigh 8.064 grammes, but as one-tenth would consist of alloy, the fine gold will be only 7.258 grammes, so that the reduction would be, as nearly as possible, 1 per cent. If no other change were effected, the value of the coin would, of course, be reduced to the extent of 1 per cent., and the inconvenience which would be caused by a corresponding alteration in all existing contracts would, no doubt, be considerable. But it was suggested that the difficulty might be got over by imposing a seigniorage of 1 per cent., so that the value of the sovereign might be as much raised by the seigniorage as it was reduced by the diminution of the gold it contained, and thus remain the same as before. The common objection is that this cannot be done, because the "intrinsic value" of the coin would be reduced, and that foreigners would not receive it for more than its "intrinsic value." This phrase is a misleading one, as it implies that the value of gold is something inherent in it, like the yellow

colour, or the metallic lustre, instead of being the consequence of the amount of labour expended in procuring it. If it be once recognised that value depends on labour, we see that a coin has had more labour expended upon it than an ingot, and that it will consequently exchange for more labour. This applies only to the case where a government charges a "brassage" and no more; but if a government undertakes to coin gratis, and instantaneously, the value of the coin would not be greater than an equal weight of ingots. In this respect there is no difference between gold and other commodities, for if the Government undertook to issue boots gratuitously to all persons who brought the necessary quantity of leather, there would be no difference between the value of a pair of boots and that of an equal weight of leather. If, on the other hand, the government were to levy a seigniorage which exceeded the cost of coining, the value of coin would exceed that of bullion to the same extent, because no one would be able to obtain coin without paying the seigniorage. Though the actual labour expended on the coin would not be sufficient to produce so great an increase in its value, yet the difficulty of procuring coin would be sufficient for the purpose, since a person who required 99 sovereigns could only obtain them at the Mint, and could only procure them there by giving bullion enough to make 100 sovereigns. As coin would be for most purposes more useful than bullion, it would be worth while for people to give a larger weight of bullion for a smaller weight of coin; and the market price of bullion would generally conform to the Mint price, since no one would give more than 99 sovereigns for a weight of bullion less than that for which he could procure 99 sovereigns at the Mint, unless, indeed, he were extremely desirous to obtain bullion for exportation abroad. In such a case the price of bullion might rise to any point not exceeding that which would induce people to melt down the coin. It will be seen that this argument assumes that people are obliged either to go to the Mint in order to get their bullion coined, or else to do without coin altogether; and the case would be materially altered if private persons were to undertake to coin bullion and not to charge more than their actual expenses. Of course, if the English Government were to levy a seigniorage it would still prohibit private coining as it does at present; but it is possible to impose so high a seigniorage as to induce private individuals to break the law, and where this is done, the value of the coin cannot be maintained at the rate which the Government dictates. A very high seigniorage, varying from 10 to 16 per cent., is charged on the silver coin, but there is no temptation to private individuals to issue silver coins, because these are not legal tender to a larger amount than 50f., and it would be difficult to dispose of so large

a quantity as must be made in order to yield such a profit as would compensate the risk incurred by violating the law. It would probably be found impossible to levy so high a seigniorage as 10 per cent. on the gold coin, which are legal tender to any amount, but it does not seem likely that a gain of less than 1 per cent. would induce people to break the law on a large scale. I say less than 1 per cent. because they would have to bear the expense of coining, which may be reckoned as one-fifth per cent. Mr. Seyd does, indeed, maintain* that 1 per cent. is high enough to induce private individuals to break the law, but few of those who have considered the subject will be inclined to agree with him. Perhaps the best answer to Mr. Seyd is afforded by the fact that a seigniorage of 1 per cent. is charged in Australia, as is mentioned by Mr. Hendriks in his evidence before the International Coinage Commission (vol. II., pp. 306-307) without giving rise to private coining.

In order to restrict the fluctuations of the price of bullion within as narrow limits as possible, it has been proposed that the Mint or the Bank of England should be required by law to give bullion in exchange for coin at the same rate as the Mint gives coin for bullion. Thus, if the proposal were adopted, the Mint would give £3 17s. 10½d. for an oz. of gold, and will also give an oz. of bullion for £3 17s. 10½d. The coins would contain 1 per cent. less gold than at present, but the holder could always obtain an oz. of gold by going to the Mint, as he can now do by melting down the coins, and there would, therefore, be the strongest inducement to abstain from melting them. Perhaps the most convenient plan would be to enact that the Bank of England should sell bullion at £3 17s. 10½d. the oz. and buy it at £3 17s. 9d. the oz., in which case the limits of variation would be the same as at present. The latter task is already imposed on the Bank, and the former is voluntarily undertaken by it. It might, of course, occasionally happen that the Bank would be unable to produce the required amount of bullion, and the price (expressed in notes) might then rise higher than £3 17s. 10½d. the oz.; but such a case would be only exceptional. Adam Smith, and many other authorities, both speculative and practical, have, from time to time, urged on the English Government the necessity of imposing a seigniorage on the gold coin as a thing desirable in itself, without reference to the advantages to be derived from the assimilation of the English coinage to that of France and other countries. The objections to such a change seem to result from little more than the prejudice which always opposes a departure from an established system. Lord Liverpool, in his exhaustive work on the coinage, published seventy

* Question of Seigniorage, p. 34.

years ago, which laid down the principles which have been acted on by the Government since 1816, observes :—"I incline to think that the charge of fabrication should not be taken from those coins, which are the principal measure of property and instrument of commerce ; and still less any profit derived from seigniorage payable to the Sovereign. Because this principal measure of property would not, in such case, be perfect. Because the merchants of foreign nations, who have any commercial intercourse with this country, estimate the value of our coins only according to the intrinsic value of the metal that is in them ; so that the British merchant would, in such case, be forced to pay in his exchanges a compensation for any defect which might be in these coins ; and he must necessarily either raise the price of all merchandise and manufacture sold to foreign nations in proportion, or submit to this loss. Because no such charge of fabrication has been taken at the British Mint for nearly a century and a half past ; and, if it were now to be taken, the weight of the new gold coins must be diminished to pay for the fabrication. And, lastly, because these new gold coins would either differ in weight from those now in currency, or, to prevent this evil, the whole of our present gold coins must be taken out of circulation, brought to the Mint, and be re-coined." (Treatise on the Coins of the Realm ; in a Letter to the King, 1805, pp. 154-5). None of these objections are of any real moment. The first, viz., that the standard of value would not be perfect, is simply unmeaning. The new coins would serve the same purpose as the old ones, that of supplying a definite meaning to contracts expressed in money, and they would afford quite as good a measure of value as the old ones. This objection is repeated by the International Coinage Commissioners on page 13 of their report, where they say, "If the value of the new coin containing 112 grains of fine gold is to be maintained as equal to that of the existing sovereign containing 113 grains by the power which the holder of it is to have of demanding from the Mint or the Bank of England in exchange for it 113 grains of fine gold in bar, it is obvious that the new coin becomes only a token coin, the value of which is maintained by its convertibility. It ceases, however, to retain its quality of being the standard of value ; and, in fact, 113 grains of fine gold in bar are substituted for a coin containing that quantity of fine gold as the standard pound and measure of value in this country." In the only sense in which a coin can be said to be a standard of value, the new coin would be quite as much a standard of value as the old one, for in it would be measured the prices of all commodities, and people would thus be enabled to compare their values. What the commissioners mean by saying that it would become a token coin is by no means clear, but the convertibility is merely a means of keeping

down the price of bullion, while the value of gold is quite as much exposed to fluctuations under either system. A bar of gold would not become a measure of value to any greater extent than at present, for the values of commodities would not be measured in it, but in coin. Lord Liverpool's second objection, that a disturbance would be introduced into our foreign trade, is of equally little force. It is quite true that foreigners estimate our coins according to their weight and fineness, without regard to the amount of the seigniorage which we impose, but the very object of a seigniorage is to prevent coin from being exported to countries where it does not circulate. An English merchant, who has to pay debts abroad, commonly sends ingots for the purpose; and the imposition of a seigniorage will induce him to buy bullion rather than melt the coin, as is now commonly done. It will neither be necessary for him to raise his prices, nor to submit to a loss, for the value of the coin will be the same as at present (the value of gold being supposed constant); and the only effect of the change will be that he will buy bullion for exportation instead of melting coin. There is another advantage attending the present proposal which, of course, Lord Liverpool could not have anticipated, that the sovereign would be made exactly equal to twenty-five francs, and would, therefore, circulate in France, Belgium, Switzerland, and Italy, so that the coins would be exported, but not for the purpose of being melted down at foreign Mints. His third objection, that no seigniorage has been charged since the reign of Charles the Second, is one which applies equally to the imposition of a similar charge on the silver coin, which was, however, recommended by Lord Liverpool himself, and subsequently adopted with great advantage. Because a bad system has been long pursued it by no means follows that a good one should not be introduced. The quantity of gold in the coin must be reduced, but this is an advantage and not the reverse. His last objection, that a complete re-coinage would be necessary, may be best answered by a reference to Mr. Jevons' paper already referred to, where it is shown that so large a part of the gold coin is already reduced by wear below the legal weight, that a re-coinage is highly desirable, if not absolutely necessary, and that the proposed change affords a most favourable opportunity for such an operation. According to Mr. Jevons' calculations, 70 per cent. of the sovereigns in circulation are too heavy to pass as twenty-five-franc pieces, and would have to be melted down; but the gold which the Government would obtain from them would be sufficient to defray all the expenses of issuing new coins in their room, and to leave a profit of more than 5,000,000f. The principal advantage to be derived from a seigniorage is the saving of a considerable amount of labour which is now employed in coining

sovereigns which pass almost immediately to the melting-pot. Goldsmiths find it more convenient to draw a cheque on their bankers and require it to be paid in gold coin than to go to the bullion market and buy bullion, because this saves them the trouble of assaying and of bargaining for what they want. They then melt down the coins to be made up into plate, and when other people want coins, fresh ones are issued. The same process is repeated on a much larger scale where remittances are made to foreign countries, since the coins being of no more value than an equal weight of bullion, nothing is lost by melting them down, and, as they do not circulate to any great extent abroad, they are either melted and re-coined at foreign Mints, or made into bars before they leave this country. That a very slight seigniorage would be sufficient to prevent such a practice is shown by the experience of the United States, where it amounts to no more than one-half per cent., and where, as Mr. Seyd observes, "bars are consequently too cheap as compared to coin, and being thus subject to exportation before the exchange arrives at the cash-point, they are found absent when that point is really reached, and bankers are obliged to send coin. This accounts for the occasional large arrivals of American coin, in spite of the seemingly protective charge of one-half per cent." (Question on Seigniorage, p. 35.) It will be observed that a seigniorage does not altogether prevent the exportation of coin, but I believe that American eagles when brought to this country are not melted, but retained by the Bank of England, or other banks, and subsequently returned to the United States. The imposition of a seigniorage would not only save the taxpayers of England from the burden which they now bear of making millions of coins which are immediately melted down, but would introduce greater regularity into the operations of the Mint, and thus benefit all those who are employed in that establishment. The Mint would then be simply required to furnish gold coin in sufficient quantities to replace the annual loss by wear and tear, by shipwrecks and other causes, which is a tolerably constant quantity. At present, whenever the foreign exchanges are in favour of this country, immense quantities of gold are sent to the Mint, which has been required to issue in a single year as much as one-fifth of the whole stock in the country, though the annual wear and tear is said to be no more than one four-hundredth part of the whole. It is to be hoped that the English Government will soon adopt the simple remedy which has been so often suggested.

Another circumstance, which barely deserves to be mentioned as capable of giving rise to a difference between the value of a metal in bars and in coin, is the legal prohibition of the melting or exportation of the coin. If the Government allows bullion to be exported, but does not

allow coin to be either exported or melted down, a case might arise in which a possessor of coin who desired to make a remittance to a foreign country would rather give coin for a smaller weight of bullion than incur the risk of punishment by melting down the coins. If so, the price of bullion would rise above the Mint price to such an extent as would compensate the risk; and a kilogramme of gold might, for instance, be sold for 3,130 francs. But the melting of coin is so easy an operation, and can be performed with so little risk of detection, and it is so absolutely impossible to discover the source from which a given ingot has been derived, that it can hardly be admitted that any such rise of the price of bullion can actually take place; and I am not aware that such a case has ever been observed. The capacity of the metals for speedy conversion into different shapes is one which is highly conducive to their utility as a medium of exchange; but it is also a great obstacle to the Government in its attempts to preserve the coin, and in its more legitimate attempts to prevent the stealing of plate. In Spain even the penalty of death was found insufficient to prevent the exportation of gold to other countries where it was wanted. The severe penalties which were inflicted by the Star Chamber were equally insufficient to prevent exportation from England. The Russian law prohibiting the export of silver has not prevented the substitution of gold for silver in the currency of that country.

In order that the holder of coins may be able to obtain by melting them the same quantity of bullion as was given for them at the Mint, it is necessary that they should be of full weight; and if they have been worn by friction, or reduced by clipping, a larger quantity of them will be required to purchase bullion. It generally happens that coins are below the full weight, and if they are received by tale, the nominal price of bullion may rise somewhat above the Mint price without rendering it profitable to melt the coin. If they have generally lost one-hundredth part of their weight, the price of gold might rise to 3,131f. the kilogramme, but no higher. No such rise is now observed in England, because all large purchases of bullion are made either with cheques or bank notes, both of which can be exchanged at the pleasure of the holder for gold coin of full weight; and if it does happen that worn coins are used, they are weighed and counted, not according to their actual number, but according to the number of perfect coins the weight of which is equal to theirs. In France, where coins are received by tale, a slight rise of the price of bullion above the Mint price has sometimes been noticed where the coins have been much worn. But the most striking instance of the kind was afforded by the price of silver bullion in England during the reign of William the Third, when the

ounce of silver which was then coined into 5s. 2d. was sold in the market for 6s. 5d., or for nearly a quarter more than the Mint price. So remarkable a phenomenon could not fail to arouse public attention, and the philosopher, John Locke, contributed three able pamphlets to the controversy to which it gave rise. He demonstrated that the cause was and could be nothing else than the extremely degraded condition of the silver coin, in which, and not in gold, all large payments were then made. He very truly observed that a person who had as much silver coin as weighed an ounce and a quarter would not pay them away for an ounce of bullion, when much more than an ounce could be obtained by melting them down. Melting was then prohibited by law (as continued to be the case until 1819), and Locke conceded that this might possibly raise the price of bullion to 5s. 3d. per oz., though he did not consider even that to be probable; but he thought it ridiculous to suppose that a profit of 25 per cent. would not induce people to break the law. Locke's arguments were opposed by an official in the service of the Treasury of the name of Lowndes, who, in a report which he made to the Lords of the Treasury in 1695, proposed that the quantity of silver in the coin should be reduced so as to bring the Mint price up to an equality with the market price, which he thought would induce people to bring silver to the Mint, and prevent them from melting the coin. Had Lowndes proposed that a seigniorage should be charged on the silver coin, and their weight proportionately reduced, the suggestion might have been of some service; but he did not do so, but merely proposed that an ounce should be coined into 75 pence instead of 62, and the whole returned to the importer of the bullion, as was then the practice. As Locke was only arguing to show that such a mere change in the denomination of the coin could have no effect in inducing people to send bullion to the Mint, or preventing them from exporting bullion, he often states his case in a way which, though perfectly correct when properly understood, is calculated to give rise to a false impression in the minds of those who take it without the necessary qualifications. He repeatedly states that "it is certain that one ounce of silver is always of equal value to another ounce of silver." ("Considerations of the Lowering of Interest and Raising the Value of Money." Works in 10 vols., 1812, vol. v., p. 50, and *passim*.) He admitted that the value of the coin might be raised by a seigniorage, and that a very considerable seigniorage might be levied on the smaller coins if they were not made legal tender for large amounts; and he merely contended that, other things being equal, the value of a coin was in proportion to its weight. The silver coins which were then in circulation had lost much of their weight, partly by wear, and partly by the fraudulent practice of

clipping. Having been struck by hand, they were often so clumsily executed that a piece could be cut off without being missed.

In the reign of Charles the Second, the method which is still in use of giving a milled edge to the coin was adopted, and clipping could not be practised on the new coins without detection; but, unfortunately, the old hammered coins were still left in circulation, and the clipping continued until the coins had been reduced, on the average, to little more than half their weight. The law did, indeed, prohibit the use of clipped coins, but it allowed those which had been fairly worn to pass as if they were of full weight; and the difficulty of distinguishing between the two classes was such as to introduce a confusion into all bargains, which at length became intolerable, and was finally terminated by the calling in of all the light pieces, and a complete re-coinage, which was carried out under the directions of Newton, then Master of the Mint. Although Locke explained that the rise in the price of bullion was owing to the degradation of the coin, he did not explain how it was that the rise was not in proportion to the degradation. From the experiments recorded by Lowndes, it appears that the coins had, on the average, lost nearly half their weight; and yet the highest price of bullion which is recorded by either Locke or Lowndes was 6s. 5d. per oz., or not quite one-fourth above the Mint price. It is possible that the coins which were used in the bullion market may have been heavier and better than the average of those which were received at the Exchequer, and which furnished the basis of the experiments above referred to; but the discrepancy may be accounted for without resorting to such an hypothesis. It is known that it was a common practice to make new coins of the pieces of silver which had been clipped off the lawful ones, and that these forged coins circulated along with the rest. If this had not been done, the mere deterioration of the coins need not have produced a fall in their value, for the smaller coins would have had to perform as much business as an equal number of perfect ones; and, as the value of money varies inversely with its quantity, the value of coined silver would have risen as its quantity diminished, and the same nominal amount of business would have been transacted with the same nominal amount of coin. But private coining prevented this, for the number of coins was artificially increased, and the amount of business remaining the same, the value of the coin was diminished in proportion to the increase in their number. As the number was not nearly doubled, the price of bullion was not doubled either. I have assumed that the amount of business remained the same, but it is probable that it was diminished; for the confusion which Macaulay has so graphically described prevented many bargains from being concluded, and so diminished the quantity of coin required.

The above cases are all in which a difference can exist between the value of a metal in coin and the value of the same metal in bars. If it is difficult for the holders of bullion to get it coined, the value of coin rises in excess of that of bullion in proportion to the difficulty, and if it is dangerous to melt coin its value may fall below that of bullion in proportion to the risk. Where coins are received by tale, the price of bullion may rise; but this is only a nominal rise, and it cannot be higher than is sufficient to give rise to melting. These conditions being understood, it may be safely said that the price of bullion is fixed by the very nature of the commodity, and merely represents the labour of coining, not the caprice of the Government. There is only one other case to be considered in which the market price of bullion may rise above the Mint price, and this again is a merely nominal rise, and does not show that the value of the metal in one shape is different from the value of the same metal in another shape. The case is that in which notes are issued which are not exchangeable for coin at the pleasure of the holder; and where this is done, as the notes can neither be melted nor exchanged for coin, there is no limit to the price which may be paid for bullion when payment is made in notes. When a Government fixes the quantity of gold which a bank shall give in exchange for its own notes, it is not fixing the price of a commodity, but insisting that its subjects shall pay their debts.

CHAPTER III.

SINGLE AND DOUBLE STANDARD OF VALUE.

GOLD STANDARD—SILVER STANDARD—DOUBLE STANDARD—SUBSIDIARY COINS.

ALTHOUGH gold and silver are used as money in all civilized countries, they are not received in all of them on the same terms. In some, as in England, all large payments are required by law to be made in gold, and in such countries gold is said to be the standard of value. In others, as in India, all large payments are required to be made in silver, and here silver is said to be the standard. In others, as in France, all payments may be made either in gold or in silver, at the option of the debtors, and such countries are said to have a double standard. The controversy is still open respecting the merits of these different systems, and the question is one of so much practical importance, as well as speculative interest, as to deserve to be examined in a separate chapter.

To begin with the system pursued in this country, the most obvious advantage of a gold standard is, that the labour of transporting the coin from place to place is thereby minimised. Gold, in proportion to its weight, is more than fifteen times as valuable as silver, and the labour of transporting an equal value of the more precious metal is proportionally less. Although the introduction of banking enables many debts to be discharged by means of bank notes and cheques, it by no means renders the transport of bullion altogether unnecessary, and even in countries where banking has been carried to its highest perfection, it is a matter of some importance to reduce as much as possible the labour of transporting coin and bullion. Sir Charles Napier once mentioned in an Indian report that twenty thousand men were constantly employed in transporting chests of silver from one part of India to another. Had India possessed a gold standard, two thousand men might have sufficed for the work, and eighteen thousand have been set free to engage in agriculture, manufactures, or some other useful employment. There is a well-known story which ascribes the death of the painter Correggio to the fatigue brought on by his carrying home the money which he had received for one of his pictures, the whole of which had been paid in copper. The reasons which make silver preferable to copper apply, though not to the same extent, to gold

when compared with silver. The superiority of gold is equally apparent in all cases where the coins have to be counted, as much time and labour are saved by employing the more precious metal. A portion of the indemnity which was paid by France to Germany after the war of 1870-71 was paid in the German silver coins which had been disbursed by the German soldiers in the course of the campaign, and it was this portion the receiving of which inflicted the greatest amount of trouble on the German officials, for the amount was considerable, and the coins of the same denomination differed so much in weight and fineness that it was necessary to count the whole quantity. Where the payment was effected in French gold coins, the simple process of weighing was sufficient, because all were of the same fineness, and were only received according to their weight; but even if it had been necessary to count them, it could have been done with one fifteenth of the labour required for a similar operation with the German coins. Of course the most desirable quality for a standard of value is that its own value should be invariable, but neither gold nor silver, nor any other commodity possesses this character, and to seek for such a substance is to seek for what can never be found. But if one of these two metals is less exposed than the other to fluctuations in its value, this would constitute one reason for preferring the less variable one as a standard of value. Cherbuliez* has called attention to a circumstance which tends to make gold less liable than silver to these fluctuations, viz. :—that gold is generally found pure, and, therefore, only liable to be cheapened by mechanical improvements, while silver requires to be extracted from the ore by chemical processes, and its cost is, therefore, liable to be reduced by the cheapening of the substances used for this purpose, and by the discovery of new processes, as well as by those mechanical improvements which diminish the difficulty of extracting both gold and silver from the mines. The cheapening of silver, after the discovery of America, was due not so much to the fertility of the mines of Potosi as to the discovery of a new method of employing quicksilver in the reduction of silver ores. The discovery of abundant quicksilver mines in California caused a fall in the value of silver contemporaneously with that which was established in the case of gold by the discovery of fertile gold mines in the same country. Cherbuliez's observation teaches us that, as a general rule, gold is less variable than silver; but at any given period the value of silver may be exposed to less fluctuations than that of gold, and gold certainly fell more than silver after the Californian and Australian discoveries. Cherbuliez himself considered that, having regard to this fact, those

* Précis de la Science Economique, II. 3, IV., vol. I., pp. 246-7.

Governments which had already established a silver standard would act wisely in retaining it for the present.* It should, however, be observed that the best way to retard the fall of the value of gold is to find a new use for it, so that the less fertile mines may be worked in order to produce a larger quantity ; and there is no way in which this can be done so effectually as by substituting gold for silver in the currency of a country which has previously had a silver standard. It has been maintained that the value of silver is more stable than that of gold, because silver is more largely used for other purposes than coin, and there is, consequently, a larger stock of silver in existence, and a longer time is required to effect a change in its value. It is not easy, however, to see the force of this argument, for, whatever the stock of silver may be, the annual production must be sufficient to replace the annual wear and tear, and any new discoveries which should have the effect of increasing the annual yield would have the same effect on its value as a proportionate increase in the case of gold would produce on the value of the latter metal. If silver be more durable than gold the annual production would be less in proportion to the total stock, and a longer time would be required to produce a fall in its value, but the mere fact that the total quantity is larger than that of gold can have no effect of the kind. There is another respect, and by no means an unimportant one, in which gold is superior to silver for the purpose of serving as coin, viz. :—that it is less liable to be imitated by the forgers of base money. Silver coins, when much worn, differ so little from similar pieces of lead, that it is very difficult for any but a practised eye to detect the base coins which are passed off as silver, to the great annoyance and inconvenience of honest people. It seems to be much more difficult to effect a good imitation of a gold coin, for those who are imposed on in this way think it worth while to write to the newspapers and mention the occurrence. This is probably due to the peculiar colour of gold which distinguishes it from other metals and metallic compounds ; or it may be that the device on the gold coin is not so frequently obliterated as in the case of the silver coin, and that thus an additional obstacle is placed in the path of the false coiner. As the inducement to such malpractices is much stronger in the case of gold, we may feel sure that the ingenious and persevering class who devote to crime the talents which, if better directed, would prove so beneficial to society, would have discovered some means of imitating gold coins if it were practicable. Their failure has not been for lack of efforts, for base coins are sometimes found in circulation, but these are generally composed of gold with more

* See part II., 3, II., vol. II., pp. 155-6.

than the legal amount of alloy, and the loss thus occasioned to those who are imposed on is slight in comparison with that which is caused by the substitution of lead for silver. The practice of sweating, which was referred to in a former chapter, is believed to be occasionally resorted to for dishonest purposes, but it is not pursued to such an extent as to cause any palpable inconvenience to the general public. In the United States a practice is in vogue of sawing out the interior of a thick gold coin, preserving the two outer faces intact, and inserting a piece of platinum in the place of the gold extracted, and then finishing up the edge with a gold rim, closely soldered. This is so skilfully done that it is very difficult to detect any alteration in the appearance, the size, or the weight of the coins. The director of the United States Mint, in his report for the year ending June 30, 1867, suggests that, as the fraud is rendered possible by the thickness of the coins, the largest of them all, the double-eagle (which is equal in value to one hundred francs), should be altogether abandoned, and that the eagles and half-eagles should be made thinner, or, at least, be somewhat concaved, so as to be thinner in the middle ; and if the suggestions are adopted, the fraudulent practice may be put an end to. This is a matter which only concerns the United States, as they are the only country where such large coins are sent into circulation, but if the English Government should ever resolve that the double sovereigns and five-pound-pieces, which at present are only known to collectors, should be sent into circulation, precautions must be taken to prevent similar frauds. Thus, in every respect, gold is superior to silver as a standard of value. It is more portable, it is more stable in value, and it is more difficult to counterfeit. These advantages are only now beginning to be appreciated. England has had a gold standard since 1816, and her example was followed by Brazil in 1849, by Portugal in 1855, by Chili in 1860, and by Germany in 1871, on the occasion of the introduction of an uniform coinage for the whole of the newly constituted Empire. Its universal adoption was recommended at the monetary conference which was held at Paris in 1867, and was attended by delegates from nearly all civilized countries. Although the resolutions of the conference had no binding force on the Governments there represented, the expression of opinion on this point was so strong that it may be hoped that it will, in time, produce some practical effect.

The recapitulation of the advantages which gold possesses for the purposes of a standard of value has been by implication a condemnation of silver. It is less portable, it is more likely to fall in value, and it is more easily counterfeited. In spite of these disadvantages it is still retained as the standard in many countries ; and, in fact, throughout a very considerable portion of the world, if we merely consider the extent

of those countries of which India is one and China is another. Where it is still retained, it is either from the force of habit and the difficulty of effecting a change, or else from a belief that, since the Californian and Australian discoveries, silver is less likely to fall in value than gold. In a country like India, where the value of silver is so great that half-a-franc a day is considered good wages, and where the Government finds it worth while to collect income-tax from incomes of two hundred and fifty francs a year, the inconvenience of silver coin is not so much felt in retail transactions as it would be in England, where silver is five times cheaper. This, however, is no reason why gold should not be used in all cases where it is necessary to transport large quantities of specie from place to place, as is often done by the Indian Government. In Germany, while the silver standard was maintained, the inconvenience to the general public was minimised by the use of bank notes, but the fact remained that it was frequently necessary for bankers to transmit specie to one another; and whenever this was done silver was more inconvenient than gold. If one country retains a silver standard, an inducement is held out to neighbouring countries to do the same, for the price of silver measured in silver fluctuates much less than its price when measured in gold; and if two countries have the same standard there is much less fluctuation in the rate of exchange between them, which is an advantage to all the merchants engaged in the foreign trade and, consequently, to all their customers. While Germany maintained a silver standard, the Governments of Denmark, Sweden, and Holland said that they could not abandon it; and as soon as Germany adopted a gold standard they began to take measures preparatory to following her example. It was natural to suppose when the Californian discoveries were first announced that gold would be much more depreciated than silver; and it is not surprising that the Dutch Government substituted silver for gold as the standard, in order to spare its subjects the inconvenience which any great and sudden change in the value of money must occasion. But, in fact, the value of silver fell nearly as much as that of gold, as is shown by the very slight alteration which has taken place in the gold price of silver, which has not exceeded the three per cent. The action of the Dutch Government had the effect of somewhat accelerating the depreciation of gold by throwing 300,000,000f. upon the market, but in those countries which maintained a double standard so large a substitution of gold for silver took place that the fall was materially retarded, while at the same time silver was depreciated, and hence the slight variation in the proportion between the values of the two metals which took place. When two commodities are so much akin to each other that one can be easily substituted for the other, a fall in the value of one

of them is sure to be accompanied, and more or less checked, by a fall in the value of the other. Barley and wheat stand in this relation to each other, and if there be a bad wheat harvest at the same time as a good barley harvest, barley is used for many purposes for which wheat is generally used, and as a smaller quantity of wheat is thus required, its cost and value do not rise so much as they would otherwise do. Gold and silver stand in this relation, and, accordingly, they always vary together, though not always to the same extent; and as they are the commodities which serve as the measure of value, the fact that they both vary together prevents the variation of either from being commonly noticed. It has been frequently supposed that gold had been very slightly depreciated by the recent discoveries, because its price, measured in silver, had fallen very little; but the fact is that both gold and silver fell at the same time, and the former to a somewhat greater extent. The effect of the American discoveries in the 16th century was to reduce the value of silver much more than that of gold; but the effect was produced by very slow degrees, the process extending over the whole of the 17th century, at the beginning of which the proportion of the value of gold to that of silver was 12 to 1, and at the end of it, 15 to 1. It is to be hoped that the silver standard will be gradually abandoned in all countries as their wealth and commerce increase; but it must be admitted that the difficulty of making a change is considerable, especially where there is a vast amount of silver coin already existing in the country. When the German Government effected the change, it was seriously embarrassed by the difficulty of disposing of the silver coins which it undertook to receive from its subjects in exchange for gold. India and China were the only countries by which any large quantities of silver could be absorbed, and the German Government found that the expense of freight and insurance was such as to make its exportation a questionable expedient. The throwing of so large a quantity into the market, coupled with increased productiveness in the American mines, had the effect of reducing the value of silver, and its price measured in gold fell in 1876 to a lower point than it had ever before touched, being such as to indicate that its value was hardly more than one eighteenth of that of gold. The English Government has the power to introduce a gold standard into India, and such a measure, if adopted, would greatly promote the interests of commerce; but it is natural that statesmen should shrink from the task of disposing of five milliards of silver coin which might be rendered superfluous by such a change. It is frequently stated that the natives of India are unwilling to receive a gold currency, but it does not appear that the choice has ever been afforded them in such a way as to make it worth their while to accept it.

The third system, that of the double standard, is that which is generally preferred on the Continent of Europe as well as in America. It is open to two serious objections :—1. That it gives the debtor an opportunity of paying his creditor what is of less value than that which he borrowed; and, 2. That it imposes an excessive amount of unnecessary labour upon the Mint. Where this system is maintained it is necessary for the Government to fix the proportion in which gold and silver are to stand to each other. Thus, when the French Government enacts that a kilogramme of gold (900 fine) shall be coined into 3,100f., and that a kilogramme of silver of the same fineness shall be coined into 200f., it enacts that gold shall exchange for silver in the proportion of $15\frac{1}{2}$ to 1. When the proportion is decided on, the Government, of course, endeavours to fix it in accordance with the actual rate at which the two metals exchange for each other in the market; but however accurately this may be done, the proportion is sure to vary from month to month and from year to year, and unless the Government is continually enacting new laws on the subject, its regulations are soon found to favour one metal at the expense of the other. When this happens, the over-valued metal alone is brought to the Mint to be coined, and the existing coins which have been made of the under-value metal are melted down and sold as bullion. Thus, so long as a person who possessed a kilogramme of silver could only obtain 198f. in gold coin by selling it in the market, but could obtain 200f. in silver coin by taking it to the French Mint—which 200f. in silver coin would serve just as well for discharging all debts in France as an equal nominal amount of gold coin—it was obviously his interest to take his silver to the Mint, and as obviously the interest of the possessors of gold coins to melt them down, and sell the bullion for a price somewhat above 3,100f. the kilogramme. This necessarily follows from the principle that everybody desires to obtain wealth by the least possible labour; and a comparison of the market prices of gold and silver bullion with those fixed by the Mint will enable us to say, even without actual records, which of the two metals is sent to the Mint to be coined. Although, as a general rule, the proportion varies within narrow limits, it has been perpetually changing, both in ancient and modern times. Lord Liverpool, in an interesting appendix to his valuable "Treatise on the Coins of the Realm," has collected much information respecting the proportions which prevailed in different periods of antiquity. The highest which he mentions was 17 to 1, and the lowest $7\frac{1}{2}$ to 1, which latter was recorded by Suetonius as a remarkable effect of the immense quantities of gold which were brought to Rome by Julius Cæsar after the conquest of Gaul. It would seem that 12 to 1 was the usual proportion, and such, at all events, it

was in the time of Xenophon. At first sight his testimony seems to be to the effect that the proportion was 10 to 1, for he speaks of one talent of gold as being equivalent to ten of silver, but the talent used in weighing gold was a smaller weight than that used for silver, and the proportion was really 12 to 1. This rate was by no means uncommon even as late as the close of the 16th century, but during the last and present centuries the fluctuations have been generally between 15 to 1 and 16 to 1.

The whole history of the English coinage is the history of a continued struggle on the part of the Government to keep both metals in circulation, in spite of the inducements which it held out to its subjects to employ only one of them. Thus, in the second and third years of James the First's reign silver was over valued, and the gold coin disappeared from circulation. The Government then reduced the weight of the gold coin while still giving them the same nominal value, and the effect was, as was intended, to bring gold again to the Mint. But in six years it was found that silver had again fallen in proportion to gold, and that the gold coins were again disappearing. In the ninth year of his reign a proclamation was issued assigning a higher nominal value to the gold coins which were already in circulation, and the rise in this case was equivalent to 10 per cent. Early in the reign of Charles the Second an Act was passed which made silver legal tender to any amount, and ordered that the gold coins should only be received with the consent of the creditors. Thus, as far as the law was concerned, a silver standard was established, but for practical purposes the double standard was in force, as it was publicly announced that guineas would be received at the Government offices as equivalent to twenty-two shillings, and the practical effect was that they were generally received at that rate. Adam Smith has pointed out that even where there is no legal enactment fixing the proportion between the two metals it is generally established by a proclamation, which in practice has the same effect. The rate thus fixed was too favourable to gold in the earlier part of the reign of William the Third, and this fact contributed to the lamentable confusion into which monetary matters then drifted. It is evident from Lowndes' report that no silver was brought to the Mint to be coined, and that this was too permanent a phenomenon to admit of Locke's explanation that the foreign exchanges were unfavourable to this country. It is quite true that large amounts of silver were required for remittance to the Netherlands for the pay and support of the English army which was then carrying on a war with France. But unless a country possesses mines of its own, which England did not, it is impossible that it can continue permanently to export either gold or silver, and there is no question

that silver coins were urgently required, and would have been forthcoming if the Mint regulations had been favourable to their production. Although it was not profitable to bring silver to the Mint, it was profitable to pay debts in the worn silver coins which were then so abundant. As was mentioned in the last chapter, all silver coins which had been fairly worn and had not been evidently clipped were received by the Government and by private individuals at their full nominal rate, and although gold was over-valued when compared with silver fresh from the Mint, it was under-valued in comparison with the deteriorated silver coins. Indeed, wherever the double standard is in force, the under-valued metal makes its appearance only in the shape of old coins, which become more and more worn as years pass by, without any addition being made to the previous stock. Macaulay, who has given a full account of this subject in his history, has quoted some lines from the "Frogs of Aristophanes" (718-31), ridiculing the Athenians for preferring bad coins to good ones, and worthless politicians to able statesmen. It is probable that in the time of Aristophanes the double standard was maintained at Athens, with its inevitable effect of preventing the supply of new coins of one or other metal. Macaulay considered the fact to be easily explained by remarking (vol. iv., p. 621), that men would not give six shillings to pay a debt which they could discharge with five, and that the good coins would naturally be exported, and the bad kept at home. This is so far true that the newer coins are always selected for melting when merchants require bullion for foreign remittance; and our gold currency suffers from this practice at the present day, but certainly not to such an extent as to give rise to general complaints on the part of the public, or to suggest a joke to a comic writer. Lowndes proposed that the weight of the silver coins should be reduced so that an ounce should be coined into 75 pence instead of 62, as was then the practice; and had his suggestion been adopted, it would, no doubt, have had the effect which he desired of bringing silver to the Mint. But he himself did not understand the reasons which would have made his plan successful, as may be judged from the fact that he proposed that the Government should compel publicans to bring their silver tankards to be melted at the Mint. A reduction of the weight of the silver coins, while the gold coins were left unaltered, would have been a raising of the proportion which silver bore to gold, and as it would have been a rise of nearly 25 per cent., silver would assuredly have been over-valued, and would have rapidly expelled gold from the circulation. But Lowndes did not even allude to this as an argument in favour of his plan, and he merely proposed the rate of 75 pence to the ounce because that was nearly the price at which an ounce of silver was

purchased in exchange for deteriorated silver coins. Locke devoted his argument to demonstrating that a reduction in the weight of the coins would be followed by a corresponding reduction in their value; and this is perfectly true, but as the new coins would have been worth, at least, as much as the old worn ones, it does not appear that the people would have suffered the inconvenience of a change in the value of money. When the Government at length determined to carry out a thorough reform of the coinage, it agreed to receive all the old pieces at their full rate, and to give new ones in exchange, and this process was carried out at an enormous expense. What the expense was is not accurately known, but it can hardly have been less than 100,000,000f., a large sum even in our own time, and, in comparison with the wealth of the country at that time, certainly prodigious. As all the hammered pieces were called in and melted down, and new ones, with raised edges, were issued in their stead, the practice of clipping was for ever put an end to; and no such confusion as then existed has ever been again experienced. The difficulty of counterfeiting was also very much increased by the superior execution of the new coins, and thus the people were rescued from both the evils from which they had formerly suffered so much. In carrying out the re-coinage the Government, of course, had to buy large quantities of silver to make up for the deficiency of the light coins, but when the work was completed, and the task of replenishing the circulation was again left to the discretion of private individuals, it was found that no silver was brought to the Mint. It may be as well to mention here that, as a general rule, the Government is merely passive as regards the supply of coin, and that the Mint simply stamps all the bullion which private individuals choose to bring to it. This is still the case as regards the gold coin of this country, but a somewhat different course is pursued with regard to the silver and copper coin. When people found that it was cheaper to buy gold bullion, and take it to the Mint, than to send silver thither, they, of course, took nothing but gold; and during the reign of Queen Anne, the immense quantity of silver coin which had been struck during the re-coinage of 1695-9 gradually disappeared. Another change was subsequently made in the proportion between gold and silver, the value of the guinea being somewhat reduced in accordance with the recommendation of Newton; but the change was not sufficient, and gold still maintained possession of the field. From that time down to the end of the century, the people suffered great inconvenience from the difficulty of getting small change, because silver was hardly ever issued from the Mint. During the long period which elapsed between the accession of George the Third and the final abolition of the double standard in 1816, there was only one year, 1787, in which any considerable quantity of

silver was coined. In 1763, 2,000 shillings were struck for distribution among the crowd on the occasion of the Earl of Northumberland's entry into office as Lord Lieutenant of Ireland, but no one brought silver to the Mint as a matter of business. In 1816 the coinage was established on its present footing by the Act 56, George the Third, cap. 68, which enacted that silver should no longer be legal tender for any larger sum than two pounds sterling, and that all larger debts must be discharged in gold, unless the creditor were willing to accept silver. It also enacted that the pound of silver should be coined into 66 shillings, instead of 62, as had been the practice ever since the reign of Charles the Second, and by so doing it lowered the proportion of gold to silver to $14\frac{1}{2}$ to 1. But for the provision that silver should only be legal tender for a limited amount, this enactment would have had the effect of driving the gold coin from the circulation, as silver is considerably over-valued. As an additional security, the Government does not issue silver coin to all who choose to bring silver bullion to the Mint, but issues them whenever required by the Bank of England, on which occasions the Mint buys whatever quantity is necessary for the purpose. The Government is not more arbitrary in the supply of silver coin than in that of gold, for the Bank of England is guided in its demands by the demands made upon it by other banks, and these, in their turn, only obey the wishes of their customers. Thus the general public determines the quantity of coin which shall be issued, but the Government is not so purely passive in the case of silver as in that of gold.

A review of the whole period shows that it is impossible for a sufficient supply of both gold and silver coins to be kept up where the double standard is maintained. When gold was undervalued, as in the reign of James the First, it disappeared from the circulation, and the people had to content themselves with the heavier metal. When gold was over-valued, as it continued to be during the whole of the last century, no silver was coined, and those who lived at that time, as for instance, Lord Liverpool, complained bitterly of the difficulty of obtaining small change. Yet Lord Liverpool, though he has himself given an account of the whole period from which much of what precedes has been derived, had so slight a grasp of the principles which he himself enunciated, that he supposed that in his own time people preferred gold merely because it was lighter, and so more convenient for large payments. He says, "In very rich countries, and especially in those where great and extensive commerce is carried on, gold is the most proper metal of which this principal measure of property and this instrument of commerce should be made; in such countries gold will in practice become the principal measure of property and the instrument of commerce, with the general

consent of the people, not only without the support of law, but in spite of almost any law that may be enacted to the contrary;" (p. 146). This is so far from being true that there is nothing which is more easy for a government to do than to exclude gold from an extensive circulation. If the English Government wish to do so, all that would be necessary would be to enact that silver should be legal tender to any amount, and the gold coin would soon disappear. Prior to 1871, Germany had no difficulty in maintaining a silver standard by simply enacting that silver alone should be legal tender for large amounts. Even Adam Smith observes, "In reality, during the continuance of any one regulated proportion between the respective values of the different metals in coin, the value of the most precious metal regulates the value of the whole coin." * It is now generally admitted that Adam Smith was mistaken in supposing that gold was preferred in his time because it was the more precious metal, and the real reason was that gold was over-valued. Indeed, all Economists, even those who, like M. Wolowski, are in favour of maintaining a double standard, are now agreed that it is impossible to keep both metals in circulation together, and that the over-valued one will always be preferred.

The experience of France is to the same effect as that of England. Previously to 1785, the louis d'or was rated by the French Mint at 24 livres, while the bullion which it contained was worth in the market 25 livres, 10 sols.; and, as it therefore answered nobody's purpose to pay in gold, the gold coin almost disappeared, although gold was, of course, the more precious metal. In 1803 (7 Germinal year 11); the French Government ordered that a kilogramme of gold should be coined into 3,100f., and a kilogramme of silver into 200f., thus fixing the proportion at $15\frac{1}{2}$ to 1. At that time, and for fifty years afterwards, gold was worth more than fifteen and a half times as much as silver, the proportion being generally about $15\frac{3}{4}$ to 1. Silver was thus over-valued, and was accordingly preferred to such an extent that gold very seldom made its appearance in large payments. But the effect of the gold discoveries in California and Australia was to reduce the value of gold more than that of silver, and the proportion fell to $15\frac{1}{4}$ to 1. As soon as this was observed, which was in 1849, the bullion dealers commenced sending gold to the Mint, and buying up and melting down the silver coin, to be exported in the form of ingots to India and China. The price of silver expressed in gold coin being 203f. a kilogramme, while the same weight of silver converted into coin would only serve to pay a debt of 200f., there was every inducement to continue the substitution of gold for silver until

* Book I. Chap. V. M'Culloch's Edition, 1863, p. 18.

the whole currency of France had been completely transformed. In 1857 the French Government seriously thought, and actually took steps towards legally prosecuting some of the principal bullion dealers of Paris, who made no secret of the fact that they were busily engaged in melting down the silver coin, but on maturer reflection they abandoned so ridiculous a method of counteracting the inducements which the law held out to the practice. M. Chevalier's able work on the probable fall in the value of gold appeared at this time, and its object was to induce the Government to lower the nominal value of the gold coin to such an extent as would bring the proportion between gold and silver to the same rate as that prevailing in the market, and thus to take away the inducement to melt down the silver coin. He proposed this not so much as a matter of convenience as one of public faith, maintaining that the real object of the law of 7 germinal year 11 was to maintain silver as the standard, and to fix the proportion so that gold would not be used to any great extent. If the debtors who had contracted to pay in silver were allowed to pay in gold merely because gold had become cheaper, it is clear, as M. Chevalier contends, that a loss would be inflicted on the creditors, and this must have happened in France after 1849; although, as the change in the proportion was very slight, it must have caused a very trifling addition to the loss which all creditors suffered from the depreciation of gold and silver. Other authorities, as M. Wolowski, deny that the object of the law has been correctly stated by M. Chevalier, and maintain that it was intended to establish a double standard. The controversy is like those which we have seen regarding the spirit and the letter of an Act of Parliament on such occasions as the appointment of Sir Robert Collier to a seat on the Judicial Committee of the Privy Council, and Mr. Gladstone's retention of his seat in the House of Commons after he had accepted the office of Chancellor of the Exchequer without having resigned the Lordship of the Treasury. The law says that any Frenchman may pay a debt of 3,100f. by giving either one kilogramme of gold or 15½ kilogrammes of silver coin. But M. Chevalier quotes a remark made by M. Gaudin, the then Minister of Finance, to the effect that whoever has a debt of 200f. owing to him shall always receive a kilogramme of silver, neither more nor less. If this was really what he meant he ought to have made the law more explicit on the point, but no English judge would interpret a law according to the speeches of the ministers who proposed the bill. If we consider the question upon wider than technical grounds it seems a strange contention that the creditors of 1853 were defrauded because a minister who had proposed a law fifty years before had said that he intended that they should be paid in silver. Every creditor must have

been more or less clearly cognisant of the law which authorised debtors to pay either in gold or silver, but only those creditors who had some taste for historical studies were likely to have heard of M. Gaudin's observations. The French Government disregarded M. Chevalier's protest and allowed the substitution of gold for silver to take its course. In justice to M. Chevalier it should be remembered that throughout his work he assumed that the value of gold would be reduced by one-half while that of silver would remain unaltered, and if the facts had been in accordance with this hypothesis there would have been a very strong case in favour of his proposal. The French people derive a certain advantage from the use of gold, and this counterbalances the slight loss which some creditors must certainly have sustained. For some years after the Californian discoveries the French Mint was so overwhelmed with work in coining gold that it was found necessary to pass a law releasing it from the necessity of coining more than a million francs a day, and even at this rate the importers of bullion were sometimes kept waiting for two or three months before they received their coin in exchange. As gold became plentiful silver became scarce, and the difficulty of obtaining small change caused so much inconvenience that the Government at length, in 1867, followed the example of England, by reducing the fineness of the smaller silver coins to such an extent that, as far as they were concerned, silver was over-valued, and there was, therefore, no advantage to be gained by melting them. The same inconvenience having been felt in Belgium, Switzerland, and Italy, the same remedy was applied in those countries as in France. These four countries agreed in 1865 to a monetary convention, by which the coins of each were allowed to circulate in all the other three, and one of the articles stipulated that all the silver coins of less value than five francs should be made of silver 835 fine instead of 900 fine as had formerly been the rule, while their weight remained unaltered. As the weight and fineness of the gold coins remained the same, this was equivalent to fixing the proportion between gold and silver at about $14\frac{1}{2}$ to 1, and it was at the same time agreed that these coins should only be legal tender up to the amount of fifty francs, being the same limit as that which is adopted in England. A limit was also assigned to the quantity of these coins which each government might coin, the quantity being in proporton to the population of the respective countries. These measures have been effectual in maintaining an adequate supply of small change, but as the five-franc piece is still of its old weight and fineness, and is still legal tender to any amount, the French are still exposed to a substitution of silver for gold whenever the price of the former falls below 200f. the kilogramme. Such was the case in 1867, and a large

quantity of silver was sent to the Mint, and in 1873 the price of silver fell so much in consequence of its expulsion from the coinage of Germany, that all the countries included in the monetary convention experienced a considerable increase in the coinage of silver, and their governments held a conference, at which it was agreed to limit the coinage of five-france pieces to a small amount during 1874. Already in 1870 the French Government had appointed a commission to consider whether it would be desirable to abandon the double standard, and to adopt gold as the sole standard of value, and seventeen out of twenty-three commissioners gave their opinions in favour of this course. The majority included M. Chevalier,* who has now thought it wise to accept accomplished facts, and favours a gold standard as the best basis for an assimilation of the coinages of all countries. The report of the commission did not appear till 1872, its publication having been delayed by the war, which broke out almost as soon as the commissioners had concluded their labours. The French Government has not yet acted on their suggestions, but there is every reason to expect that it will do so, and that the double standard will be abandoned, not only in France, but in all the countries which were parties to the convention of 1865.

A review of the experience of France shows that the double standard inflicts considerable inconvenience where the proportion between gold and silver is fixed so near to the average market rate as to favour each metal alternately. In the first place, creditors are constantly exposed to a slight loss by the option which debtors enjoy of paying in whichever metal happens to be the cheapest. This objection, however, is not so important as that which is grounded on the great amount of unnecessary labour which is imposed upon the Mint. In whatever way the expenses of coining are provided for, the fact remains that the labour of many men is employed in producing coins which are to be melted down before they have done as much work as coins ought to do ; and so much labour is thereby withdrawn from more useful occupations. But for the double standard the silver coins which were in use before 1850 would have served the people until 1860 with very slight annual additions, and all the labour of coining two milliards of gold would have been saved. Even admitting that this was a labour France must have undertaken at some time or other, there still remains the waste of labour which occurs whenever silver five-franc pieces are coined to take the place of gold. The change which has been made in the smaller silver coins shows that the Government finds it impossible to maintain the double standard in its integrity, and it will be strange indeed if France can permanently repose

* See Enquête sur la Question Monétaire. Paris, 1872. Vol. II., p. 395.

at such a halting place. The experience of the United States has been in all respects analogous to that of France. A law passed in 1792, soon after the formation of the union, fixed the proportion of gold to silver at 15 to 1; and, as this was below the market rate, it was too favourable to silver, which alone was coined in any large quantities, as long as the law continued in force. In 1834, however, the quantity of gold in the eagle was so much reduced that the proportion was altered to 16 to 1, and the effect of the change was a gradual substitution of gold for silver, as the rate prevailing in the market was about $15\frac{3}{4}$ to 1. The dollar had been formerly worth about 4s. 6d. sterling, and after the reduction was worth about 4s. $1\frac{1}{4}$d.; and it is a curious instance of the tenacity of old habits that though the change was made in 1834 it was not till the commencement of 1874 that the Committee of the London Stock Exchange ceased to reckon the dollars as worth 4s. 6d. in quotations of United States securities. The Californian discoveries had such an effect in accelerating the disappearance of the silver coin that the Government was obliged in 1853 to reduce the weight of the silver coins of smaller denominations than one dollar, making the proportion in their case $14\frac{7}{8}$ to 1, and to limit the amount for which they should be legal tender. The silver dollar continued until 1873 to be legal tender to any amount, but as the proportion in the coinage was 16 to 1, while in the market it has been generally below $15\frac{1}{2}$ to 1, very few silver dollars have been coined since 1853. In 1873, the remarkable fall in the price of silver raises the proportion to a trifle above 16 to 1, and the United States Government seriously entertained the idea of returning to specie payments on a silver basis, but the price rose again before it carried out its intention. Both in France and the United States the effect of the Californian discoveries was to induce the Government to issue small gold coins of the same denomination as the largest silver coins already in use, the five-franc piece in the one case and the dollar in the other, the two coins being of the same fineness, and very nearly of the same weight. In both countries it has been found impossible to maintain the double standard in its integrity, and the present state of things must be regarded as merely provisional. The United States having adopted a higher proportion than France has done have suffered less inconvenience from the fluctuations of the market.

M. Wolowski, the most eminent defender of the double standard, bases his argument on the very fact which is generally regarded as affording the strongest reasons for rejecting it. In his evidence* before the Monetary Commission in 1870, he objects to the use of the phrase

* See the Enquête, &c., vol. I., p. 451, et seq.

"double standard," on the ground that only one metal can be the standard at any one time, and maintains that France has had a gold and a silver standard alternately. This alternation he considers as extremely useful in that it conduces to stability in the value of money. If the value of gold rises silver is used in its stead, and if silver rises gold is used, and thus a rise in the value of the one is, to some extent, counterbalanced by an increased use of the other. If all the money in the world were made of one metal alone, there would, M. Wolowski considers, be more danger of a rapid change in its value than there is at present, now that the effect of the cheapened production of gold is counteracted by an increased use of it for purposes to which silver was formerly applied. It must be admitted that it is highly desirable to maintain the value of money at the same level, and that the substitution of one metal for the other has often mitigated the effects of an improvement in production. But even if a gold standard were universally adopted throughout the world silver coins would still be used for small payments; and a rise in the value of gold would still be followed by an increased use of silver coin, and vice versa. If, for instance, the average of the weekly wages of the agricultural labourers of this country should again fall below 12f. 50c., silver coins would again be generally used for paying their wages, instead of gold coins, as at present. It is, moreover, probable that a rise in the value of gold would have some effect in promoting an increased use of silver plate and silver watches by those who would formerly have had such articles made of gold. As regards the present time more particularly it must be borne in mind that it is gold which is now exposed to a certain and considerable depreciation, and that this will certainly be retarded by whatever steps are taken to obtain an increased employment for it. On these grounds, therefore, I am inclined not to attach so much weight to M. Wolowski's argument as he does himself. There is, however, nothing in his opinions which is inconsistent with the principles of Political Economy, and the task of the Economist is simply to point out what are the effects which follow from any given system, while it is for the politician to strike the balance between the advantages and disadvantages of different systems. But Mr. Seyd, the principal, if not the only writer who in this country advocates the introduction of the double standard, does so on grounds which could not be maintained by any one well acquainted with the principles of Political Economy. He is a banker who is thoroughly familiar with all the facts relating to the production and distribution of the precious metals, and his work on "Bullion and Foreign Exchanges" is a valuable mine of information to all those who wish to study the details of the subject. But with the exception of a single work of M.

Chevalier's, he does not appear to have studied the writings of any Political Economist, and the natural consequence has been that in the chapter which he has devoted to a defence of the double standard (part III., chap. IV.), he has fallen into some strange errors. He tells us that if silver is partially demonetised, *i.e.*, is no longer used as coin, except for the purpose of small change, a great stock of silver will be thrown on the market, which could not be absorbed without submitting to a great reduction in its price. If the price falls very considerably, it will, he tells us, be impossible to maintain the English silver coin in circulation. He says :—"Let us suppose silver to go down in price some 30 or 50 per cent., what would be the inevitable effect of this fall upon the silver coinage still remaining in circulation ? The actual price at which the English silver coinage is issued is 66d. per oz. standard ; in other countries it is issued at 60$\frac{7}{8}$d. to 61d. per oz., the present market price being 61$\frac{1}{2}$d. But let the price of the metal, regulated simply by the laws of supply and demand, fall some 30 or 50 per cent., say to 43d. or 31d. per oz., will any one pretend to maintain that the law of legal tender will be sufficiently powerful to keep up the nominal value of the silver coinage ? The people may consent to take a farthing bronze piece for a penny, but they certainly will never agree to take eightpence or sixpence for a full shilling." (p. 609.) But he gives us no reason why the nominal value of the coin should not remain constant while the price of bullion is falling. Even so great a difference as fifty per cent. between the value of silver coin and an equal weight of bullion is not without a precedent. The people of China were long accustomed to use dollars of a particular pattern, called the Carolus dollar, which were coined by the Spanish Government in Mexico, but which were no longer issued after Mexico achieved its independence. As time went on, the Carolus dollars became scarcer and scarcer, but the Chinese felt more confidence in the purity of the metal of which they were made than in that of the newer dollars which were coined in Mexico or elsewhere ; and, though these coins were of nearly the same weight and fineness as a five-franc piece, they would at one time exchange for seven-and-a-half francs in other coins. If it be true that people would not take sixpence or eightpence for a shilling, it is not from any unwillingness on the part of the public, but merely from the inducement which a very high seigniorage would hold out to private coiners. The law which limits the use of silver coin to payments not exceeding fifty francs renders it very difficult for private coiners to dispose of so large a quantity as they must make in order to compensate the risk incurred by breaking the law ; but if it be true that a profit of 50 per cent. on each coin would be sufficient to render private coining profitable, a simple remedy can be at once

applied. It is only necessary for the Government to reduce either the weight or the fineness of the coins (whichever may be found most convenient), to such an extent as to afford no higher profit then 10 per cent. to private coiners, and their operations will at once be put an end to. Mr. Seyd contends that the disuse of silver will be a diminution of the wealth of the world. After estimating the quantity of silver coin which will be thrown out of circulation at twelve milliards, and the total amount of gold and silver at thirty or thirty-one milliards, he proceeds: "We are justified, then, in assuming that the solid circulating medium now existing in the world would suffer a somewhat sudden reduction of some thirty-eight-and-a-half per cent., for which we could not possibly expect to find an immediate compensation in the increased supply of gold money, or in a considerable rise in the value of gold. Will anyone pretend to deny but that the withdrawal of so large a portion of the world's solid circulating medium must seriously injure the best and truest interests of trade and commerce, and disastrously affect the social welfare of mankind?" (p. 612). It may be doubted whether anyone except Mr. Seyd himself will now contend that the interests of society can be affected except for good by the substitution of gold for silver. It is a mere substitution, for, although Mr. Seyd says that we cannot possibly receive compensation from an increased supply of gold money, it is scarcely possible for the silver to disappear until the new gold coins are ready to take its place. Whenever a government makes such a change it always allows sufficient time for the Mint to manufacture the new coins before it declares that the old ones shall no longer be legal tender; and, even if this precaution were not adopted, the creditors would be willing to accept silver, if silver were to be had in abundance, and if gold did not exist in sufficient quantities. Mr. Seyd tells us that whatever differences may exist among Political Economists, they are all agreed that the recent gold discoveries have given a great impulse to industry and commerce; and he further gives us his own opinion that an increase of the currency of a country, even in the form of inconvertible notes, affords a stimulus to trade. "The example," he says, "of the United States, with their greenback currency, is conclusive on this point," (p. 613); and, on the next page he observes: "The converse surely must hold equally good, therefore, viz., that the destruction of a considerable portion of the existing circulating medium, the annihilation of part of the world's capital, cannot but prove injurious to the best and truest interests of mankind; and we are clearly justified in maintaining that the advocates of the single gold standard, by the projected universal prohibitions of payments in silver, except to an insignificant amount, would strike a most serious blow against the advance of civilization and the blessings

of social progress." Thus he tells us that the expulsion of silver from the currency of the world would be an injury to trade, while he tells us that the gold discoveries have given an impulse to trade; and yet the new gold has been chiefly employed in filling the place of the silver expelled from countries where the double standard is in force. He tells us that the issue of greenbacks has given an impulse to the trade of the United States, and yet the greenbacks have been solely employed to take the place of gold and silver coin. Thus his views are inconsistent with one another, besides being opposed to those of all Economists who have written since the time of Adam Smith. As the value of money varies inversely as its quantity, an increase of the quantity does not increase the wealth of a country, but merely causes more money to be used in performing the same amount of business. The gold discoveries have, indeed, imparted a certain direction to the commerce of the world, for they have given rise to an extensive trade between Australia and California on the one part, and the rest of the world on the other. But this has been a mere change in the direction of the current and not an addition to the wealth of the world. The substitution of gold for silver would require a considerable exchange between the gold-producing countries and those where silver coin is abundant; but a mere increase of trade is not a benefit in itself unless it brings increased satisfaction to human wants. If the standard of value were changed in every country every three years there would be a more frequent exchange of gold for silver between different countries than there is at present, but this increase of trade would be simply an increase of trouble, and not an advantage. It has not been the increase of the "greenback" currency which has stimulated the trade of the United States, for whatever may have been the increase in the nominal amount of the business transactions of that country, the increase, so far as it is due to the use of "greenbacks" is merely nominal, and the depreciation of the currency has not raised the value of commodities. Whatever benefits the people have derived from the use of "greenbacks" are owing to the convenience which so light and portable a species of money affords as compared with gold, and to the saving of labour which is effected by the comparative disuse of so expensive a commodity as gold. Mr. Seyd speaks as if the silver which is expelled from the currency is to be lost to mankind; but it is easy to foresee that any great fall in the value of silver would be followed by a great increase in its use for domestic utensils and other purposes. If silver were to lose nineteen-twentieths of its value, even the worst-paid labourers would probably use silver spoons and forks, and other articles made of silver would come into general use. The holders of silver would rather sell it for one-twentieth of its cost price than

throw it into the sea; and whatever was the extent of the depreciation, it would prove a benefit to the great mass of the community. Putting an extreme case, the utmost effect of the depreciation could only be to put a temporary stop to the working of silver mines, and it could never be found impossible to find some use or other for the existing stock. There is yet another argument put forward by Mr. Seyd which seems the most extraordinary which occurs in his chapter on this subject. It is that the prohibition of the use of silver for large payments is a violation of the principles of Free Trade. He says: "It is clear to us that the advocates and supporters of the single gold standard offend against the laws of sound reasoning when, having taken their stand professedly upon the broadest basis of the principles of Free trade, they, at the end of their case, suddenly turn round deliberately to demand the adoption of a most illiberal and prohibitory law to put down the use of silver in future as a standard of value! We cannot help looking upon such a proposition as one of the most flagrant and mischievous violations of the very principles upon which, up to that point, all their arguments in support of the single gold standard proposed by them have been based." (pp. 642-3). I have seen in a comic journal a speech put into the mouth of a spendthrift complaining that Free Trade could not be said to prevail so long as trade was shackled with the onerous and absurd condition that debtors should be compelled to pay their tradesmen's bills. What was there said as a joke differs very little from what Mr. Seyd puts forward in sober earnest. Of all the senses in which the hackneyed phrase "Free Trade," has been used, the strangest is that of freedom to the debtor to choose whether or not he will pay his creditor what is of equal value to that which he owes. The establishment of a gold standard does not prevent creditors from accepting silver in any quantities which they choose; but merely decides that payment shall be made in gold when no stipulation has been made to the contrary. It is necessary for the Government to announce publicly what is the form in which it will accept payment of taxes, and it is convenient, if not absolutely necessary, to lay down some rule for the guidance of the tribunals which may have to settle cases of unfulfilled contracts, and to make gold coin legal tender is merely to define the meaning of the sums of money in which contracts are generally expressed. To demonetise silver is not to interfere with the right of individuals to exchange commodities in whatever way is mutually convenient to them, but is simply to prevent individuals from forcing others to accept what they do not want and have not promised to receive. It is to make an arrangement for the general convenience of society, and not to interfere with the liberty of individuals.

Where silver is the standard of value it is possible for the people to use it for all payments, however large or however small; but where a gold standard is in force it would be extremely inconvenient if the people were left without coins made of some cheaper material to be used in small payments. Even where silver is the standard it is usual to issue copper coins for very small payments. In order that these coins may not be melted down, as so constantly happens wherever the double standard is in force, it is necessary for the Government to over-value the metal of which they are made in comparison with that which is the standard of value. Thus, in the English coinage, silver is reckoned as standing to gold in the proportion of $14\frac{1}{2}$ to 1, while the proportion in the market is much higher. To express the same thing in other words, an ounce of silver is coined into 5s. 6d., while it can be purchased in the bullion market for 5s. or less. Thus a considerable seigniorage is extracted from the silver coin, a seigniorage which is constantly varying in amount, being sometimes as low as 6 per cent. and sometimes higher than 16 per cent. It is not a fixed proportion, as is the case with the seigniorage on gold coin which is charged in France, for the English Mint buys silver in the market whenever the price is low, or whenever it is thought convenient to do so, while the number of coins which are to be made out of each ounce is fixed by law. As the coins which weigh an ounce are capable of discharging a debt of 5s. 6d., while an ingot formed by melting them would only sell for 5s. or thereabouts, a loss would be incurred by melting them, and consequently it is never done. The copper, or rather bronze coins are rated very much in excess of their value as lumps of metal, the quantity of copper of which a penny is made not being worth much more than a farthing until it has been coined. This would hold out a very strong inducement to private coining were it not that these bronze coins are only legal tender to the amount of twelve pence, and it is therefore practically impossible to dispose of any large quantity. Unfortunately, this difficulty imposes serious inconvenience on some people who have no wish to break the law, but the nature of whose business causes them to receive large quantities of bronze coins. The keepers of public-houses naturally receive a large quantity of these coins from the poorer classes of their customers, and the accumulation in their tills is so great that their landlords have, at least in London, consented to receive large sums in bronze in payment of the rents of the houses. The owners of the houses are generally the brewers whose beer is sold in them, and some brewers have publicly stated that they have lost very large sums by receiving at par large quantities of these coins which they are subsequently unable to dispose of. To melt them down

would entail a loss of 75 per cent., and the law of legal tender renders it, if possible, to dispose of them in any other way. The remedy which is required seems to be not so much an alteration of the law as of the practice of the Mint. It would be unwise to compel the Mint to receive bronze coins in any quantities at par, for this would give rise to private coining on a large scale, and would entail a ruinous expense on the Government. But though the law cannot well be altered, a practice might be introduced at the Mint of applying to the principal breweries for bronze coins whenever they were asked for by the public instead of at once issuing new ones as is now done. Thus the old stock would be properly utilised instead of new ones being issued in one part of London while heaps of old ones are lying unused in another. The same inconvenience has been sometimes experienced with regard to the silver coin. At periods when there is great activity in the manufacturing districts the public call for large quantities of silver coin, and the scarcity of it is sometimes so great that manufacturers are willing to pay their bankers a premium to obtain it. When a period of stagnation returns and there are no longer such large amounts of wages to be paid, the silver coins accumulate in the vaults of the Bank of England, and on some occasions, as in 1831 and 1836, the directors have been obliged to melt down large quantities and sell them as bullion, thus inflicting a considerable loss on that establishment. By a clause in the Bank Act of 1844 the Bank of England is allowed to keep a quarter of its reserve in silver, and I presume that since the passing of that Act the directors have not found it necessary to resort to so expensive an expedient. The reserve which that Act compels the Bank to retain has scarcely ever been less than 150,000,000f., and is generally about 250,000,000f., and the accumulation of silver coin has probably never amounted to one-fourth of the smaller of these sums, and, at all events, I am not aware that it has ever been found necessary to melt down silver coin since 1844. M. Wolowski* adduces the fact that this clause was inserted in the Bank Act as a proof that the working of the English system of a single gold standard is not altogether satisfactory, and supports his opinion by reference to that of Sir Robert Peel, who proposed the clause in question on this very ground, that it would mitigate the inconvenience of a single standard. It must be admitted that there is an inconvenience, and as the remedy which has been applied inflicts another inconvenience on the Bank of England by enforcing the maintenance of a larger reserve than is really necessary, it cannot be regarded as quite satisfactory. But the inconvenience which is thus occasioned is slight in comparison with that

* Enquête, etc., vol. I., p. 477.

to which those nations are exposed who maintain a double standard, as they are always suffering from a scarcity of one or other metal. We in England do occasionally feel a scarcity of silver coin, but this is only because the Mint is not large enough to supply a sudden and large demand. The difficulty is purely mechanical, and could be got over by enlarging the Mint, or by calling in the assistance of private Mints in times of pressure, and is not caused by the melting of the coin, as is so often the case in other countries, but simply by a change in the wants of the community.

CHAPTER IV.—CREDIT.

USE OF CREDIT—BILLS OF EXCHANGE—BANK NOTES—CHEQUES—CLEARING-HOUSE—CHEQUE BANKS.

ALTHOUGH the use of money is extremely advantageous, and even necessary to every society in which trade has advanced beyond its rudest stage, it is not altogether unaccompanied by a disadvantage which it is desirable as far as possible to minimise. Inconvenient as it is to conduct all trade by means of barter, the system possesses at least this advantage, that the whole labour of the producers is devoted to the production of articles which are required for their own sakes; while in a country where money is used, some portion of the labour of the people must be employed in producing the money itself, and in transporting it from place to place. If, therefore, a method can be devised by which the people, without returning to barter, can effect their exchanges with a smaller quantity of money, a great benefit will be conferred on the whole people. The quantity of gold, silver, and copper coins in this country is supposed to be equivalent to about two milliards and a half, and this sum represents the labour of three million men for a whole year. If a method could be devised for dispensing altogether with this vast sum of money without using any substitute for it, the advantage would be gained of applying the whole quantity of gold, silver, and copper to various domestic uses, and the people would thus obtain the benefits of the labour of three million men, while so much labour as is employed in producing articles to be exchanged for the gold and silver used to replenish the currency could be devoted to some other purpose. Credit affords the means of approximating, though not of attaining, to this ideal perfection. If a person who wishes to obtain an article gives no money, but a promise to give money at a future time, the use of coin is dispensed with, at least so far as that particular transaction is concerned; and though it is true that the promise must be redeemed at a future time, it does not follow that coin will even then be required. Before the time has arrived for its fulfilment, the original seller may purchase something from the original buyer, and if the two articles are of the same value, and the two promises are fulfilled at the same time, one may be set off against the other, and no transfer of coin need take place. Trade, thus conducted, is barter relieved from the difficulty that

the wants of buyers and sellers are not felt at the same time. The articles produced by different persons are exchanged for one another, but by means of credit the operation of exchanging is spread over a considerable time, to the mutual convenience of both parties. The simplest form in which credit of this kind is given is that of book-credit, *i.e.*, where the seller of an article merely makes an entry in his books to the effect that the purchaser owes him a certain sum for the goods supplied. Where two tradesmen supply each other with goods, and are alternately in each other's debt, no transfer of coin need take place until they have made up their books at the end of the month, the quarter, or the year ; and even then the sum required is not the total amount of the transactions, but the difference, if any, between the debts respectively owing by each of the two parties to the other. A large number of transactions between dealers are settled in this manner, and a still larger number are settled by the same process in a somewhat more complicated form. Instead of two parties setting off their respective debts against each other, they settle them by transferring debts due from third parties ; and a class of men soon arises who make it their business to effect these settlements. The use of credit not only enables a people to dispense with coin, but also renders it more easy to transfer capital from the hands of possessors who do not know how to employ it, to the hands of those who have the necessary skill and enterprise to employ it with advantage, but do not possess a sufficient quantity. Without credit it would be more difficult for the capital to come into the possession of those who are able to make the best use of it, and a country where the transfer can be easily effected possesses a certain advantage over others in the competition of industrial life. In England this is easily effected through the medium of bankers. Those who have capital which they are unable to employ, sell it, and deposit the money in a bank, and the bank, in turn, lends money to manufacturers or others, which enables them to procure capital to be employed in producing articles which are required by the public. Mr. Bagehot has given us an illustration of the advantage which England derives from the greater development of its system of credit in competition with other countries which are less advanced in this respect, in a passage which deserves to be quoted at length :—"In a new trade, English capital is instantly at the disposal of persons capable of understanding the new opportunities, and of making good use of them. In countries where there is little money to lend, and where that little is lent tardily and reluctantly, enterprising traders are long kept back because they cannot at once borrow the capital, without which skill and knowledge are useless. All *sudden* trades come to England, and, in so doing, often disappoint both rational probability and

the predictions of philosophers. The Suez Canal is a curious case of this. All predicted that the Canal would undo what the discovery of the passage to India round the Cape effected. Before that all Oriental trade went to ports in the south of Europe, and was thence diffused through Europe. That London and Liverpool should be centres of East Indian commerce is a geographical anomaly, which the Suez Canal, it was said, would rectify. 'The Greeks,' said M. de Tocqueville, 'the Styrians, the Italians, the Dalmatians, and the Sicilians, are the people who will use the Canal, if any use it.' But, on the contrary, the main use of the Canal has been by the English. None of the nations named by Tocqueville had the capital, or a tithe of it, ready to build the large screw-steamers which alone can use the Canal profitably."* I would not ascribe too much to the influence of credit in this case, for the possession of abundant coal and iron mines gives England a great advantage over Southern Europe in the manufacture and equipment of screw-steamers ; and, as regards the Greeks, the interference of their Government greatly impedes the construction of iron ships. I merely cite it as an instance of the way in which a speedy transfer of capital from hand to hand may give one nation a good start in the race of industry. The use of credit is beneficial by affording an encouragement to honesty and punctuality in matters of business, and thus often assisting a man of good character, but of comparatively small means, to obtain the wealth which he has shown himself capable of employing to the advantage of the community. There is a general belief that men are respected in the City in proportion to their wealth, but all who are engaged in money-lending know that this belief is erroneous, and that a man of good character can obtain a loan on better terms than a much wealthier man who is addicted to questionable practices in his business. In Scotland it is a common practice for a bank to give credit to respectable people for a small sum which will enable them to set up in business ; and many a frugal and honest person has thus received a start in life which has led to the acquisition of a considerable fortune. In England such a practice has not been reduced to a system, but Sir Arthur Helps mentions in his life of the late Mr. Brassey that that eminent contractor was enabled, by the kind assistance of a bank, to obtain the capital which was needed to undertake his first contract, so that it was owing to credit that he was started in his remarkable career. Whenever public attention is arrested by some scandalous abuse of credit, observations are made implying that credit itself is at fault, and that it

* Lombard-street : A Description of the Money Market. By Walter Bagehot. London, 1873. p. 14.

would be better if no business were done except for ready money. The person who has been victimised often gets little sympathy, but is thought a fool for his credulity, and it is represented as the part of a wise man to place confidence in no one. Yet, if there be anything at which the reformers of humanity should aim, they should surely strive to raise the moral standard of the race to such a point that everyone could safely trust, not merely his relations or intimate friends, but every stranger, with the whole of his fortune, if occasion required it; and as such a feeling of confidence can only be generated by constant practice, we ought to regard the development of credit as a beneficial influence in the improvement of mankind. All who are engaged in money-lending, whether bankers, bill-brokers, or others, are obliged, for their own safety, to watch as carefully as possible the conduct of those to whom they lend, and the supervision thus exercised must tend to promote honourable conduct among men of business, every one of whom knows that he may at any time be obliged to borrow, and that any misconduct on his part will be sure to bring its appropriate punishment when the day of need arrives. Mr. Gilbart, in his "Practical Treatise on Banking," ascribes a beneficial influence to the establishment of a bank in a country town, on account of the supervision which its manager exercises over the conduct of the local tradesmen, and the same influence must be felt in other places.

It must not be supposed that credit adds anything to the wealth of the country, for it merely affords the means of transferring wealth from hand to hand. It is sometimes said that credit is capital, but such a notion is quite inconsistent with the definition of capital which has been adopted in the present work. Capital, as the term is here used, consists of the food and clothing which labourers require while they are labouring, and it is clear that no pieces of paper or entries in books can fulfil the function of maintaining labourers. All that credit does is to enable those who know how to make a good use of capital to obtain possession of it for so long a time as will enable them to produce some articles by the sale of which they can obtain enough money to discharge their obligations. It would not be sufficient for persons to lend money to Railway Companies unless the country contains sufficient capital to support the labourers required to construct the railways, and a country which imports food receives assistance from foreign countries although nothing may be actually lent by foreigners to its inhabitants. As on the one hand the advantages of credit ought not to be over-estimated, so, on the other hand, its disadvantages should not be too highly coloured. When a commercial crisis takes place people are apt to ascribe it to the use of credit, but, in reality, the disaster is generally the effect of natural

causes, and would take place if credit were unknown. Credit, in fact, rather mitigates than aggravates the calamity, and though it takes the form of a general inability to fulfil pecuniary engagements, this is merely the form, and the distress which constitutes the calamity would be quite as great if there were no debts to discharge. The most general cause of a commercial crisis is a bad harvest, which, by raising the price of corn, compels many people to reduce their expenditure on other articles, and thus disappoints the expectations of producers and distributors engaged in various branches of industry, and renders them unable to meet their engagements. I may quote another passage from the instructive and entertaining work which I have just referred to. "All the industries, A, B, C, D, up to Z, are somewhat affected by an augmentation in the price of corn, and the most affected are the large ones, which produce the objects in ordinary times most consumed by the working classes. The clothing trades feel the difference at once, and in this country the liquor trade (a great source of English revenue) feels it almost equally soon, especially when for two or three years harvests have been bad and corn has long been dear, every industry has been impoverished, and almost every one, by becoming poorer, makes every other poorer too." (Lombard-street, pp. 127-8.) The disturbances would be quite as great as at present, even if no business was transacted except for ready money. Under any system, producers and dealers would accumulate stocks of commodities in order to supply the wants of the public, and a bad harvest would have the effect of diminishing the sales of clothing, liquor, and other articles which the holders had counted on being able to dispose of. Not being able to find such a ready sale for their goods, they would make smaller profits, and would be forced to dismiss many of the persons who were in their employ, and these again, being thrown out of work, would be less able to purchase goods from other producers, and the distress would thus be propagated through the whole community. The distress is caused not by men trusting one another, but by less wealth being produced, and its becoming necessary for many people to cease from working in the mode to which they are accustomed. A co-operative store where no credit is given is not secure against such reverses of fortune, for its usual customers may suddenly find themselves unable to make their usual purchases, and the managers of the store may find themselves unable to pay the wages of the shopmen and clerks employed. A few years ago, Sir James Martin, the prime minister of New South Wales, was defeated in the Legislative Assembly, and thereupon dissolved that body so suddenly that it had not time to vote the supplies. For a month or so the civil servants were unable to obtain their usual salaries, and the consequence was, that the

co-operative store which they had established on the principle of giving no credit was almost deprived of custom, and must have been closed if assistance had not been obtained from a bank. Thus a society which set its face against credit was itself obliged to resort to credit in an extraordinary emergency, and yet its customers belonged to the class whose incomes are beyond all others the most certain to be punctually received. As in this case of a particular society, so in that of traders in general, a resort to credit is the best and almost the only means of tiding over a temporary difficulty. As manufacturers make a much larger quantity of goods than they could purchase with their own money, because they reckon on being able to dispose of them again, any sudden turn in the market may leave them with a large stock in hand which they do not themselves require, and which they cannot dispose of. An advance of money will enable them to keep their factories at least partially employed until a favourable opportunity for disposing of their stock arrives ; and, if they are unable to obtain a loan, they may be obliged to sell their goods at greatly reduced prices, and altogether close their factories. Not only would their own loss be greater, but the suffering would be propagated among all those who are in any way directly or indirectly dependent upon them, and though it is true that their liabilities would not have been so great if they had not accumulated stock in anticipation of a demand for it, we must remember that it is to the advantage of consumers that a large stock should be always ready to meet any sudden demand. If a country is able by means of credit to obtain a large quantity of food from abroad, the evils of a bad harvest can be very greatly mitigated, and if the loan is repaid by means of the subsequent production of other articles which foreigners require, the relief is obtained without inflicting any injury upon foreigners. A country which has not the means of borrowing in a time of difficulty is exposed to all the evils of a famine whenever its own harvest is deficient ; and even though credit is neither given nor taken, universal distress will be found to prevail. A common feature in a commercial crisis is the inability of railway companies to meet their engagements ; but it is not because people give credit to railway companies that a stagnation of railway enterprise takes place, but because there is not sufficient capital in the country to complete all the schemes of railway promoters ; or else because some of them are badly planned, and would have proved unprofitable if carried out by men who embarked in them no one's money except their own. Where credit is used to bring capital into the hands of those who will squander it in useless luxury, or in enterprises which, though intended to be useful to society, are so ill-conceived or ill-executed as to prove altogether useless, there is, of course, no benefit, but

only an injury done to society. Credit in itself can neither add to nor diminish the wealth of a community, and is only so far beneficial as it enables the capital which the community possesses to be more effectively employed. Having thus taken a general view of the advantages and disadvantages of credit as a system, I pass on to an examination of some of the particular forms which it assumes.

Next to book-credit, the simplest form which credit assumes is that of a bill of exchange. In every trade there is a custom of giving credit for a certain time after the goods are delivered, it may be for one month, more usually for three months; and in some cases, where the traders reside at great distances from each other, for as much as two years. When a manufacturer has supplied goods to a wholesale dealer, he writes an order on the latter, telling him to pay the price to a third party as soon as the customary period for giving credit (in commercial language the "prompt") has expired. This order is called a bill of exchange, and is said to be "drawn" by the creditor and "accepted" by the debtor, *i.e.*, signed by him as an acknowledgement of the debt, and a promise to pay it on the specified day. Bills of exchange are mainly useful in two ways. First, they are used to save the trouble and expense of remitting specie to distant places. If the tradesmen of Manchester have bought goods from London, and the manufacturers of Manchester have sold goods in London, bills of exchange afford the means of dispensing with the double transmission of specie to discharge both sets of obligations. The manufacturers draw bills on their London correspondents, *i.e.*, order them to pay the money which is owing for the goods, not to the manufacturers themselves, but to the London tradesmen who have sold goods in Manchester, and sell these bills to the Manchester tradesmen, who remit them to their London correspondents. Thus, supposing the debts due in London to be equal in amount to those due in Manchester, *e.g.*, a million francs in each place, no specie need be transmitted in either direction. One million francs is paid in Manchester from the tradesmen to the manufacturers, and another million is paid in London by one set of dealers to another set. Of course, in practice, the amounts due in different places are seldom exactly equal, and it is frequently necessary to transmit specie; but this is only done in order to discharge the balance which remains after a much larger amount has been settled without any coin being used. Bills of exchange are said to have been first used by the Lombard merchants of the middle ages, who resorted to them in order to save themselves the trouble and expense of transmitting specie from place to place, and the expedient is so simple, and so convenient, that it would seem as if it were certain to be employed in every country where commerce has grown to large proportions.

Commerce between foreign countries is transacted almost entirely by means of bills; but it must not be supposed that there is any likelihood that bills will be able to supersede coin altogether, either in foreign or in internal commerce. Do what we will, there will always be some difference between the debts due to, and those due from, the traders of a particular place at any particular time, and coin or bullion must be transmitted to secure the punctual payment of bills. Secondly, the practice of drawing bills enables a trader to obtain payment for his goods before the "prompt" has expired. The drawer of a bill usually sends it to his banker, who undertakes to present it when due; and as the acceptor usually makes it payable at his bankers', the great mass of bills are usually in the hands of bankers from the time when they are drawn to the time when they are paid. Bankers thus become tolerably familiar with the signatures of various firms besides their own customers, and also with the general amount of the bills which they accept, and with their character as men of wealth and of business habits; and as bankers are always ready to give one another information as to the respectability of their customers, they are able to form a pretty correct judgment as to the probability of a bill being paid when it becomes due. A practice therefore springs up by which a trader who wishes to get his money before the "prompt" has expired sells the bill which he has drawn to his banker, the latter, of course, receiving the money when the bill is paid. The banker, in consideration of his having to wait for some time for his money, does not give his customer the whole amount of the bill, but deducts a small portion for his own benefit, which is called the discount, and purchasing a bill in this way is called discounting it. The discount is in proportion to the amount of the bill and to the time which it has to run, or, in other words, which must elapse before it is paid, and is said to be so much per cent. per annum. Thus, supposing the rate to be 4 per cent. per annum, and a banker agrees to discount a bill for 10,000f. which has three months to run, he will only give his customer 9,900f., and will take 100f., or 1 per cent. for a quarter of a year, for his own profit. Not only is the rate or discount different for different persons, according to their reputation for respectability and wealth, but the rate of discount which is charged to first-class houses, whose failure is scarcely regarded as possible, is perpetually varying, and has often been changed ten times in a single year. The causes of these changes will be discussed in a future chapter, but it is sufficient to say here, that the rate rises when bankers are besieged with numerous applications from borrowers, and falls when they have large sums in their possession which they are anxious to lend. It having been found that bills are a convenient means of raising money, a practice has arisen

of drawing bills simply for the purpose of getting them discounted, *i.e.*, of borrowing money upon them. An English bill bears on it the words "value received," which denote that it is drawn on account of a debt due for the value of goods received by the acceptor from the drawer, and the law now requires that these words shall appear on every bill, in default of which its payment cannot be legally enforced. When, therefore, persons who are not engaged in business draw and accept bills, they are obliged to insert these words, even though nothing of any value has, in fact, been received, and it is perhaps for this reason that bills of this class are called "fictitious bills." Were it not for these words, there is no more reason why one of these bills should be called ficticious than an ordinary one arising out of a commercial transaction. A person who is in need of money gets a friend to "accept" a bill for him, *i.e.*, to promise to pay a specified sum on a specified day, the understanding being that before the day arrives the drawer, who is the person who wishes to borrow, will provide the money with which the acceptor is to pay the bill. The bill having been duly drawn and accepted is taken to a money-lender and discounted, and provided that it is paid when due no harm is done to anybody, but, on the contrary, two or three persons have been benefitted by the transaction. Bills of this class are indeed less likely to be paid, and are discounted at a higher rate than commercial bills by a class of money-lenders inferior in standing to the bankers and bill-brokers who perform the same office for merchants and manufacturers, and there is certainly some reason for the distrust with which they are regarded. But the same disparaging epithet is applied to bills of a different order drawn or accepted by bankers for the purpose of borrowing and lending money, and whenever it is known or suspected that large quantities of such bills are in circulation, the most melancholy vaticinations may be heard as to the disastrous results which the issue of so much fictitious paper will produce. During the earlier part of the year 1873 it became known that American bankers were borrowing large sums, to the amount, it was said, of 200,000,000f. from London, by means of bills sent thither to be discounted, and the "Times" at once predicted that the issue of so much fictitious paper must be followed sooner or later by a general break-up of credit. It is perfectly true that a commercial crisis did occur in the United States in September of the same year, but it would not be easy to establish any connexion between the two circumstances. It is not the form in which credit is given, but the extent to which it is given to persons who are unable to meet their engagements, which causes the general collapse which is called a commercial crisis. So long as the American banks were able to pay their debts, it did not matter whether

the bills which they drew on London represented debts owing to them from London bankers or were merely drawn as a means of borrowing money. The banks which discounted them were interested in knowing whether the names which they bore were a sufficient guarantee for their punctual payment, but beyond this there was no reason why they should concern themselves about the origin of the bills. As the extent of a man's business imposes a limit to the amount of bills which he can draw against sales of commodities, he cannot incur such heavy liabilities by means of such bills as he can by those which are drawn for the sole purpose of borrowing money, and this furnishes a slight reason for making a distinction between the two classes of bills. But, in truth, a money-lender can derive very little assistance from a knowledge of the fact that certain bills represent an actual sale of goods, and he must be largely, if not entirely, guided by his knowledge of the characters of the parties concerned if he would form a correct judgment on the commercial value of the bills. So much experience, and such constant vigilance, are required for success in the business of bill-discounting, that, in a large city like London, it is carried on by a special class of bill-brokers, who act as intermediaries between the bankers who lend them money and the merchants whose bills they discount. The London bankers do, indeed, discount bills, but, as a rule, they do so only for their customers, *i.e.*, for persons who keep accounts with them, and may be said to lend money to the bankers in their turn by keeping an unemployed balance with them. The amount of bills in circulation in England is enormous, and is constantly increasing. In 1856 it was estimated by Mr. Newmarch at about five milliards, but it was estimated by Mr. Palgrave in 1873 at nearly nine milliards, *i.e.*, bills to that amount are held at one time by persons who have discounted them. As the great majority of them are exchanged against one another, a very small quantity of coin is required to effect these vast transactions.

Bills of exchange are chiefly used by traders, and can do but little to supersede coin in payments made by persons belonging to the professional or the labouring classes; but bank notes, to which I now proceed, may be used by all classes of society, and go as far as any pieces of paper can to do away with coin altogether. A bank note is a promise given by a banker to pay a certain sum on demand, *i.e.*, whenever it is brought to him for the purpose by any one who happens to have possession of it. As long as the reputation of a banker is such that a large number of people are fully convinced that he can and will pay his notes whenever presented, there is little need to put his capacity to the test by actually presenting them, and a note may be passed from hand to hand for months, or years, and may perform a hundred payments before

it is returned to the banker who originally issued it. If notes are issued for very small amounts they may supersede coin altogether, as far as internal trade is concerned; but this rarely, if ever, happens, unless the government compels all its subjects to receive them as a full discharge of all debts. Scotland affords the best example of a country in which bank notes which are not legal tender, but obtain a circulation simply from the confidence which the public entertain in the solvency of the banks which issue them, have obtained such general favour as to have nearly superseded gold coin. Sovereigns are seldom seen in Scotland, unless brought by travellers from England, and Mr. Baxter once mentioned in the House of Commons, that when he offered one as a gratuity to a Scotchman, the man regarded it suspiciously, and asked if he could not give him a one-pound note. This is the smallest amount for which notes may be issued in Scotland, and if the law allowed smaller ones to be issued, the disuse of coin would no doubt be more complete. Sir A. Helps, in his life of Brassey, mentions an instance of the advantages derived from the introduction of bank notes. One of the numerous contracts which Brassey undertook was for the construction of a railway in the north of Spain, and his agent found that it was a costly and dangerous job to convey the large sum of money required for the pay of the labourers to the secluded mountain district in which they worked. Not only was the chest a heavy load to draw, but it offered a great temptation to any adventurous band of highwaymen who might wish to overpower the escort. After a time, the agent commenced paying the labourers in the notes of a local bank, and though they could not at first understand the transaction, they soon found that it was quite as convenient to them as to their employer. When the notes were first offered them in place of the gold coins which they had been used to receive, they took up the silver and remarked that it was not the whole amount to which they were entitled. When they were told that by taking the notes to the bank they could obtain the gold which was their due, they took them reluctantly, and at once rushed with them to the bank; but finding that they were always cashed when presented, they soon got accustomed to them, and kept them till the next market day or other time when they wished to spend their wages. Thus the construction of the railway was the occasion of gaining a circulation for bank notes in that part of the country.

The convenience of small notes is keenly appreciated in Scotland and Ireland, where a dealer has frequently to send a commercial traveller into rural districts to make a great number of small purchases from a number of petty farmers, and where it is consequently of some importance that the traveller should be encumbered with as light a load as

possible. Whenever it has been proposed to abolish these small notes by Act of Parliament, the Scotch and Irish have met the project with so much opposition that it has never yet been carried out. In England, during the first quarter of the present century, small notes were allowed to be issued, and they quite superseded gold in ordinary transactions, but during the last fifty years no notes have been permitted of a lower denomination than 125f., which is too high a figure to admit of the disuse of gold in retail transactions. The reason which prompted Parliament to prohibit the issue of smaller notes was the fear that such notes would get into the possession of poor people, who would be more likely than the rich to be seized with a panic and to produce a general bankruptcy by running to present notes for payment. Had the issue been allowed, it can hardly be doubted that the people of England would have become as much accustomed to them as the Scotch, and would have been no more disposed than the Scotch to inflict a loss on themselves by a senseless run for gold. When the public have become accustomed to the use of bank notes a material addition is made to the banker's power of lending, as he can feel sure that all his notes will not be returned at once, and can lend not only all his own money but also as much more as the circulation of his notes amounts to. When asked for a loan, he can give the borrower some of his own notes, and he need only keep as much coin in his coffers as is required to cash the notes which may happen to be presented for payment. In common language it is said that the power of issuing notes makes an addition to the banker's capital, and enables him to give so much the more encouragement to trade and manufactures. In reality, no addition is made to the capital of the country, but the disuse of gold enables the people to apply to other purposes the capital which would otherwise be used in producing gold, or in producing other articles to be exchanged for gold, and the same amount of capital is made to produce more commodities which the people require. Thus some impetus is given to trade and manufactures, and a still greater assistance is afforded to the establishment of a sound system of banking. Some of the oldest banks in the world, as those of Amsterdam and Hamburgh, were established for the sole purpose of giving notes for coin and coin for notes, and were supposed to keep in their coffers an amount of coin exactly equal in value to the notes which were in circulation. The small States of Holland and Hamburgh experienced much inconvenience from the quantity of worn coins from various countries which circulated in them, and these banks were founded to enable merchants to obtain good coins whenever they required them. A merchant could deposit any quantity of good silver coin in the bank, and the bank would give him an equal amount of its notes, which

were always accepted within the limits of the city as equivalent to coin, and which could always be exchanged for coin when the holder required specie for exportation. By this plan the people were saved the trouble of transporting specie from one part of the city to another, but so long as the specie in the vaults of the bank was fully equal to the notes in circulation there was no economy of coin, and the people had to bear the expense of replenishing the large store of silver as required from time to time. Great importance was attached to the preservation in the vaults of the Bank of Amsterdam of the whole of the specie entrusted to it, and those who had the management of it were sworn to keep it intact. To quote Adam Smith's words, "The bank is under the direction of the four reigning burgomasters, who are changed every year. Each new set of Burgomasters visits the treasure, compares it with the books, receives it upon oath, and delivers it over with the same awful solemnity to the set which succeeds; and in that sober and religious country oaths are not yet disregarded." But M'Culloch's note on this very passage shows that even in Holland an oath was a very poor security for faithful administration, and the directors of the bank had secretly lent a portion of its specie to the Dutch East India Company, and to other bodies, though the fact did not transpire until the French invasion in 1795. Whenever the directors of a bank are free to conduct its business according to their own judgment, they must see that it is quite unnecessary to keep in their coffers an amount of specie equal to their notes, as it can only be on a very extraordinary emergency that the whole of their notes will be presented for payment. By keeping a smaller reserve they not only increase their own power of lending, but confer a benefit on the community by setting free a quantity of bullion for exportation, or for use in manufactures. During the last thirty years the English Government has allowed no increase in the amount of bank notes, unless accompanied by an exactly equal increase in the metallic reserve of the banks which issue them, and thus the people are deprived of one o the principal advantages which result from the use of notes. There remains, however, the convenience of having an extremely portable medium of exchange, and some protection against theft, for as every note has a number of its own, it is more easy to trace one which has been stolen than a particular coin. As notes can always be exchanged for coin at the banks which issue them, they must retain the same value as the coin which they represent, and the amount of notes in circulation depends on the amount of the payments which the people have to make, and in which paper is more convenient than coin. The amount, therefore, of notes in circulation always increases at those periods of the year when most business is done, and diminishes when business is slack. The

bankers cannot keep in circulation a larger amount of notes than the public require, for anyone who has a note which he does not want will either take it to the bank to be cashed, or will pay it away to some one else who will do so, and the circulation will thus be reduced to its proper level. As soon as the notes of any one bank get into the possession of another bank they are presented for payment, perhaps the next day, or at most after an interval of three days; and a bank which did not keep a sufficient reserve to meet such calls would soon be obliged to stop payment. Thus the power of issuing notes does not give any encouragement to the reckless lending of money to those unable to repay the loans, but merely enables a banker to provide a convenient kind of money for those who trust in his solvency. So great is the convenience of a system of bank note issue, that it has now been established in every civilized country, and is found to exist even in the interior of China, where it cannot have been suggested by European influence. Its general extension throughout the world has been, in a great measure, the result of English enterprise, and there is hardly a considerable city in Europe or America which does not possess one or more banks directed, or at least founded, by Englishmen. Bank notes, even when their issue is not regulated by the State, can never wholly supersede coin, for the simple reason that when notes are presented the bank cannot pay them in its own notes, and it cannot often happen that the notes which it has to pay are precisely equal to the notes of other banks which it holds. Banks will not consent to a delay in the payment of the notes which they present, and coin is the only means of ultimately satisfying a debt. Even the Scotch banks had to keep a reserve of coin to meet such calls before the Act of 1845 compelled them to keep in their vaults an amount of gold exactly equal to the increase of their circulation beyond the amount at which it stood in 1844.

There is another kind of paper-currency which seems destined to attain larger proportions than either bank notes or bills of exchange, which consists of orders upon bankers to pay specified sums on demand, which are commonly known by the name of cheques. Though used in other countries, it is only in England that they are so popular as to bid fair to become the principal means of settling pecuniary liabilities, and, as compared with bank notes, they are modern even in England. In the seventeenth century, when a banker agreed to make a loan he did so by advancing some of his own notes, but at the present time he usually gives the borrower a credit in his books, and allows him to draw cheques to the amount, and undertakes to pay such cheques whenever presented either in notes or in coin, as the bearer may prefer. Among the richer classes it is now an almost universal practice to deposit money with a

banker, chiefly for the purpose of drawing it out from time to time by means of cheques. It is natural that the use of bank notes should precede that of cheques in the history of banking, for a person who accepts a note runs but a small risk by trusting to the banker's solvency as compared with what he incurs by entrusting his own money to the banker's custody. A note generally represents but a small sum, while a person who keeps an account at a bank is expected to keep a large unemployed balance in the banker's hands. It costs less trouble to accept a note, or to pay it away again, than it does to pay in or withdraw deposits from a bank, especially if the bank be at some distance from the depositor's residence. A person who accepts a note runs somewhat less risk of being defrauded than one who accepts a cheque, for a note is a promise which the banker is obliged to keep, while a cheque is an order which the banker may not in all cases be obliged to obey. A banker is, indeed, obliged to pay the cheques drawn on him by his depositors, or customers as they are commonly called, but only when the cheque does not exceed the balance which is standing to the drawer's credit in his books, and the receiver of a cheque has no means of knowing what is the amount of the drawer's balance. Not only may a cheque be refused payment, or, as it is termed, dishonoured, because the drawer has overdrawn his account, but it is much easier to forge a cheque than a note. Most bankers issue printed forms of cheques to their customers, which are to have the amount filled in at the customer's pleasure, and be signed by him. If any of these forms come into the possession of a swindler, nothing is easier than for him to fill in any amount which he chooses, and sign it with his own, or with a fictitious name; and if any person is unwary enough to cash it for him, the fraud cannot be discovered until the cheque is presented at the bank. If a swindler has had a genuine cheque in his possession it is more easy for him to forge printed forms for cheques on the same banker than it would be to forge bank notes, which are carefully manufactured in such a way as to give the greatest possible trouble to imitators. For these reasons cheques are less willingly received from strangers than notes, and circulate for a much shorter time before being presented for payment. A bank note has been known to circulate for a hundred years before returning to the bank which issued it, and it is quite a common thing for notes to circulate for months or years; but cheques are usually presented within two days of the time when they are drawn. Hence, of course, a very much larger amount of cheques is required to transact a given amount of business than is the case with bank notes; but, in spite of this disadvantage, cheques possess certain advantages which make them, in many cases, preferable to notes. In

this country the extensive employment of cheques has, no doubt, been very much promoted by the action of the Government, which has done its best to discourage the issue of notes, and which subjects bills to a heavier taxation than cheques. The celebrated Act of 1844 prohibited the establishment of any new banks of issue, and limited the issues of all existing banks in England and Wales, except the Bank of England, to the amount which they used to issue just before the passing of the Act. The Bank of England was not confined to any absolute amount, but was only allowed to issue notes to the amount of 350,000,000f. (since increased to 375,000,000f.), in excess of the bullion or specie in its vaults. It was further enacted, that if two issuing banks should decide to amalgamate their business, they could only do so by forfeiting the circulation of one of the two, and that if any country bank should commence transacting business in London it should lose the right of issuing notes. This latter penalty has been actually incurred by the National and Provincial Bank, and the circulation of the country banks was thereby diminished by 10,000,000f. During the thirty years which have elapsed since the Act was passed many private banks have failed; and though the diminution of the country notes has been more than compensated by an increase in the circulation of the Bank of England, yet the total increase has been very small. In 1845 two Acts were passed restricting the issue of notes in Scotland and Ireland. As in England, the establishment of any new issuing bank was forbidden; but the existing banks were allowed to increase their issues on condition of retaining in their coffers an amount of gold exactly equal to the excess beyond the average issue of 1844. In spite of this condition, which must diminish the profit derived from their issue, the circulation of the Scotch and Irish banks has considerably increased since the passing of the Acts. The difference between the results of similar legislation in the different parts of the United Kingdom is probably owing to the fact that much smaller notes are allowed to be issued in Scotland and Ireland, as such notes are not so much exposed to the competition of cheques. Notes are always issued for round sums, while cheques are commonly drawn for the exact amount of the payment which the drawer wishes to make; and, as the adding-up of a great number of small odd sums entails considerable trouble, there is a tacit understanding between bankers and their customers that cheques are not to be habitually drawn for smaller sums than 125f. As was mentioned before, the fact that the tax is the same on all cheques, whatever their amount, affords an additional discouragement to the use of small cheques; and though bank notes are subject to a tax it is paid by the banker, and not, as in the case of cheques, by the customer, and does not, therefore, discourage

the use of notes by the public. Bankers not only take care of the money which their customers deposit with them, but may be said in many cases to collect their income for them, by receiving in their names dividends on the public funds, railway debentures, railway shares, foreign stocks, and numerous other public and private stocks, from which so large a proportion of the incomes of the richer classes is derived. Hence the practice of keeping an account with a banker is almost necessary to a rich man who has a great deal of money invested in different ways and does not wish to take the trouble of going in person to receive his dividends as they become due. To receive a great number of dividends for a great number of customers involves very little trouble to a banker in comparison with what must be undergone by the customers themselves if each of them acted singly. Although the use of cheques tends greatly to economise both coin and notes, there is but little reason to expect that they will entirely supersede either the one or the other, for when a cheque is presented for payment it must be paid either in coin or in notes, and a considerable number are presented every day by, or on behalf of, those who draw them, and who wish to provide themselves with notes or coin to be used in small payments. By cashing cheques, banks still perform, to some extent, the function for which those of Amsterdam and Hamburgh were originally instituted, that of providing good coin for the use of the public. When an employer requires a quantity of coin to pay the wages of his workmen he sends a cheque to his banker, and asks to have it cashed in such coins as he needs, and bankers are obliged to keep a store of coin to meet such calls; and if their stock falls low they must replenish it by obtaining fresh coins from the Mint. Persons who from the nature of their business receive large sums in coin, transmit them to their bankers, and if the latter find among them a number of worn pieces, they either melt them, or, in the case of silver, send them to the Mint to be exchanged for new ones. The silver which is collected after a charity sermon is sent to a bank, to be soon drawn out in small sums, and again returned, so that the currency of the country is constantly passing through the hands of bankers.

Bankers have resorted to various expedients for reducing as far as possible the amount of notes and coin which they must keep in reserve to meet the calls made on them by one another. The system adopted in London is that of settling their liabilities by cheques on the Bank of England. There is an establishment in the city called the Clearing House, to which all the banks send every day all the cheques, bills, and other orders on other bankers which have come into their possession, and, as far as possible, these engagements are set off against each other. The

balances which remain outstanding after all has been done by mutual exchange to settle the accounts are liquidated by cheques on the Bank of England, with which every bank finds it necessary to keep an account. The system of clearing, even if it could be applied to all cheques, would not do away with notes or coin, for it would still be necessary for banks to use one or other to keep up their balances at the Bank of England, on which they draw their clearing-cheques. This system is rendered possible in England by the exceptional position of the Bank of England, which enjoys an unquestioned pre-eminence over all other banks, but a different one has to be employed in Scotland and Ireland, where no bank enjoys a similar pre-eminence. In Edinburgh and Dublin, meetings are held twice a week at which a mutual exchange of notes, cheques, &c., takes place among the different banks, and the outstanding balances are settled by the transfer of exchequer bills. Here again, though the system is extremely convenient, it does not tend towards the total disuse of coin, for the banks must sometimes find it necessary to buy exchequer bills from one another, and must pay for them either in gold or in Bank of England notes, which can only be obtained by means of gold.

A new system has been recently introduced for the purpose of giving a great extension to the use of cheques by freeing them from some of the disadvantages which have hitherto impeded their more extensive employment. In 1873, a bank was established in London called the Cheque Bank, the object of which is to encourage the use of small cheques. In order to do this the more effectually, a new method has been devised by its promoters to prevent the possibility of over-drawing. Its cheques, unlike those of other banks, bear on their face a printed announcement that they cannot be filled up for more than a specified sum, and care is taken that a customer shall only be supplied with such a number of cheques that the total amount which he can draw out by means of them shall not exceed what he has deposited in the bank. Thus, if a customer deposits 500f., he may obtain a cheque-book containing ten cheques, each of which has an announcement printed on it to the effect that it cannot be filled up for more than 50f.; but can, of course, be filled up for any smaller sum. The security which is thus afforded against over-drawing acts as a considerable inducement to receive these cheques from strangers, and several railway companies have announced that they will accept them in payment of the fares. In order to compensate for the greater trouble entailed by the payment of a large number of small cheques, this bank makes a charge for the cheque-books which it supplies to its customers in addition to the payment for the stamps on the cheques themselves, which are always paid for by the customers of this and other banks. If this stamp-tax should ever be repealed, it is difficult to fore-

see the extent to which these cheques would be employed; but under our present system they can hardly be much used, except in cases in which post-office orders would otherwise be used. Their cost is less than that of post-office orders, and they can be better protected from being stolen while passing through the post; and, when once the public has become accustomed to them, will require less trouble to cash them. They are "crossed," *i.e.*, marked so as to indicate that they can only be paid through a banker, which renders it somewhat more difficult for a thief to dispose of one than of a post-office order, which can always be cashed by any one possessed of information usually contained in the letter from which the order has been stolen. As any banker will cash them, it is not necessary for the receiver to go to the post-office to receive his money; but he can pay it away to any tradesman. The cost of the system is less than that of the money-order system, because the cheques are only payable in London, while the post-office undertakes to cash orders in any part of the country, and must transmit specie for the purpose. The question whether the bank will succeed is one on which it is the less becoming in me to speak as I am pecuniarily interested in the result; but if the anticipations of its promoters are ever realised, it will have effected a considerable economy in the use of coin.

CHAPTER V.—VALUE OF A PAPER-CURRENCY.

EFFECTS OF CREDIT ON PRICES—INCONVERTIBLE TREASURY NOTES—INCONVERTIBLE BANK NOTES—CONVERTIBLE BANK NOTES.

THE proposition that the value of money varies inversely as its quantity is only true within certain limits, and much confusion has been introduced into Political Economy by writers who have endeavoured to account for all changes of prices by variations in the amount of the currency of the particular country, without paying sufficient attention either to the circumstances which would have caused prices to vary if the amount of the currency had remained the same, or to those which would have produced an alteration in the amount of the currency if prices had remained stationary. If all sales were effected for ready money, and if nothing but coin were used, there could hardly be a simultaneous rise in the prices of all commodities without an increase in the quantity of money. If larger sums are to be used, there must either be more coin or the same coins must pass more frequently from hand to hand, or in other words, there must be a greater efficiency of circulation. If the prices of all commodities rise simultaneously, it must either be because labour has become less efficient in all branches of industry, or because it has become more efficient in producing the substance of which coin is made. The price of a commodity depends on the quantity of labour employed in producing it, and on the rate at which that labour is remunerated, and if the price rises, it must either be because more labour has beeen expended, or because the labourers have received higher wages. It is extremely unlikely that labour should become less efficient in all directions at the same time, so that an universal rise of prices is almost certain to be due to a fall in the value of money; and we might safely infer that something had happened to render money cheaper, even if we had no direct evidence to show that money-wages had risen. But when the rise of price is confined to a few commodities, it is extremely unsafe to infer that the value of money has fallen without any direct testimony to the fact that money-wages have risen, and it is equally unsafe to assume that the value of money has fallen merely because its quantity has increased, without reference to the question whether a greater number of labourers have been employed, or a greater number of commercial transactions effected. In a country where credit is

commonly given, there might for a time be a general, and even an universal, rise of prices, without any actual increase in the quantity of metallic money, and without any fall in its value. Purchases may be made on credit at prices which are continually rising, and as no coin will be required until the expiration of the term for which credit is given, the quotations of the market may continue to show an upward movement for some months, without the actual quantity of coin in the country being increased. Even when the time of settlement has arrived it may possibly be effected without more coin if the rise has been common to several commodities, and if means are devised for settling the account by transferring the large debts due for one commodity to those who have already contracted large debts for another commodity. Bills of exchange furnish a convenient means for such a settlement. The merchants who have sold cotton at a high price, draw bills for the amount at two or three months' date, and purchase tea, paying for it by accepting bills which will fall due at the same time ; and when the time arrives the two sets of bills may be exchanged for one another, and the debts cancelled with but a small transfer of coin, or without any coin at all. At a time when speculation is rife, the prices of many commodities rise at the same time, and a greater amount of bills are drawn to pay for them. If the bills which fall due at the same time are not equal, but require a larger quantity of bank notes to settle the balance, a larger quantity of notes will be issued, or more coin will be withdrawn from the banks for the purpose. Prices rise in what is called a speculative period, because speculators buy up a larger quantity of certain commodities than is usually supplied to that particular market, and thus render it necessary for fresh stocks to be brought from a greater distance than usual, or to be produced in less favourable circumstances, and to be brought to market at a greater cost. In common parlance, prices are said to rise because the demand is in excess of the supply, but I have endeavoured to show that this explanation only touches the surface, and that the real cause of the rise is the increased cost of producing the last quantity which must be brought to market in order to satisfy the requirements of the purchasers. It matters not whether the purchasers actually give ready money for the goods, or merely promise to pay for them, so long as the sellers are convinced that the promises will be kept, for the price depends on the cost of production; and the producers will continue to produce as long as they are satisfied that they will be able to sell at a profit. We thus arrive at the conclusion which was slowly elaborated by Tooke—after a long and careful examination of the fluctuations of prices in the English market during more than half a century—"That the prices of commodities do

not depend upon the quantity of money indicated by the amount of bank notes, nor upon the amount of the whole of the circulating medium; but that, on the contrary, the amount of the circulating medium is the consequence of prices."* This conclusion appeared the height of absurdity to Colonel Torrens, who was undoubtedly an able and well-informed writer, but who displayed his ability rather in ingenious attempts to make facts conform to a pre-conceived theory, than in framing theories in conformity with facts. In a pamphlet published in the same year as that of Tooke he cites the above passage, and then observes—"The logical accuracy of this conclusion may be tested by affirming the analogous proposition, that the prices of commodities in Europe, after the discovery of the mines of South America, did not depend upon the quantity of money indicated by the amount of coin, nor by the amount of the whole of the supply of gold and silver; but that, on the contrary, the mines of South America, and the increased amount of gold and silver obtainable therefrom, were the consequence of the subsequent rise of prices."† Thus Colonel Torrens maintains that the rise of prices which followed the discovery of America was produced by the great increase in the quantity of gold and silver, and that, in the same way, a rise of prices in a country where bank notes are used must be caused by an increase in the amount of the notes in circulation, or of the coin, or of both. Even the first of these propositions is by no means so certain that it can be taken without qualifications as a basis for a theory, and if the first were true, the second would not be a necessary inference from it. The reason why the value of gold and silver fell after the discovery of the American mines was that those metals could be obtained from the new mines in greater quantities *in proportion to the labour employed* than had been the case in the mines which had been previously worked. The same quantity of labour produced a greater quantity of silver, and the result was that the same quantity of labour would exchange for a greater quantity of silver. In order that the miners might not be better remunerated than other labourers in proportion to the disagreeableness of their labour, the money-wages of other labourers were raised in the same proportion as those of the miners, and as this rise of wages was not necessarily accompanied by increased efficiency on the part of the labourers, it was necessary for them to raise the prices of the articles which they produced, and it was thus that the rise became general. As it gradually came into operation the quantity of coin was gradually

* Inquiry into the Currency Principle, 1844, pp. 123-4, conclusion 12.

† Inquiry into the Practical Working of the Proposed Arrangements for the Renewal of the Charter of the Bank of England, &c. By R. Torrens (Second Edition) 1844, p. 44.

increased, and the increase of the coin was rather the effect than the cause of the rise of prices. It is true that at a time when so little recourse was had to paper-currency no great rise of prices could have taken place until the quantity of coin in circulation was increased, and the actual rise was slow because many years were required to produce the necessary quantity. But the mere increase of the quantity of the precious metals, unaccompanied by any diminution in the labour required to procure them, would not have led to any fall in their value. If many new mines had been discovered, but none of them had been more fertile than the poorest which was previously worked, there might have been a large increase in the quantity of bullion and coin, but there would have been no fall in their value. If it had been thought worth while to work these mines, it would only have been because the consumption of gold and silver for purposes of ornament was increasing, or because an increasing population, or an abandonment of barter rendered a greater quantity of coin necessary. There is no reason why the consumption of gold and silver should not increase from one or other of these causes while their value remains stationary, and it would be extremely unsafe to infer a depreciation from an increase of quantity. Colonel Torrens charges Tooke with inconsistency in explaining the fall of price in the case of other articles by attributing it to an increased supply, and yet maintaining that an increase in the supply of money does not produce a fall in its value; but, in truth, money does not in this respect differ from other commodities. Tooke never contended that the price or the value of wheat was continually diminishing because a constantly increasing population renders it necessary for a larger quantity to be brought to market every year, nor would any one maintain that the price of coal falls whenever a larger quantity is extracted from the mines in the course of a year. But even admitting that the value of the precious metals fell after the discovery of America, because their quantity was increased, it would not follow that the same effect would be produced by an increased issue of bank notes. It is so important that the distinction between the two cases should be thoroughly understood that I propose to devote the present chapter to explaining as clearly as I can, what are the circumstances in which they differ, and what are the oversights which have led Colonel Torrens and other writers to what I regard as erroneous conclusions. The most important difference between gold and bank notes as regards their effect upon prices is, that the former can be forced into circulation at the pleasure of the holders while the latter cannot be forced into circulation at the pleasure of the issuers. When a fortunate digger discovers a new deposit of gold, he can at once obtain commodities in exchange for it, because traders in almost every part of the world have

agreed to part with the whole, or any portion of their stock whenever gold is offered them in what they consider sufficient quantities. The first finder is able to obtain gold with less labour than other people, and yet to buy goods at the same prices as other people, and is therefore more highly remunerated. As the discovery becomes more generally known, other labourers are induced to try their fortune in the same field; and if many succeed in obtaining more gold by digging than they formerly earned in other employments, there is an obvious inducement to the local tradesmen to raise the prices of their goods. The diggers on their part are not unwilling to give the gold which has cost them less labour in return for smaller quantities of goods than formerly, for while they spend more with one hand, they earn more with the other. As the discovery of a new mine does not increase the efficiency of labour in producing food, clothing, or other commodities, a general rise of prices is necessary in order that all articles may exchange for one another in proportion to their cost of production. The quantity of gold is increased, because it is the interest of every digger to raise as much as he can, and to spend it before prices have risen, and the quantity of coin is increased because prices rise. In order that the same effects may be produced by an increase of paper as by a discovery of gold, the issuers should have the same power of forcing their paper into circulation as the discoverer has of doing with his gold. The only case where such a power is enjoyed by the issuer, is where the issuer is a government which compels its subjects to receive Treasury notes which it will not cash, although they are nominally promises to pay coin, and in such a case, the same results follow from a large issue, as from a discovery of gold.

When a government is engaged in a costly war, or from other causes thinks it necessary to spend more than it receives, an obvious expedient for relieving its financial embarrassments is to pay for the articles which it purchases by giving promises to pay at a future time, and if when the time arrives it is still unprovided with the means of payment, it can diminish the loss which the contractors would otherwise suffer by enacting that the records of its promises shall be accepted in all transactions between debtor and creditor as equivalent to the sums which they represent. Thus the contractors or civil servants who first receive treasury notes (as such promises are called) are able to pay them away to their creditors in discharge of debts previously incurred, and for a time no one suffers any inconvenience. If the government consents to receive its notes in payment of taxes, and the revenue proves sufficient to defray the expenses of government without re-issuing the notes thus received, they may be destroyed, and the debt thus cleared off. If the

notes are re-issued and yet the total amount is less than that of the coin previously in use, the only effect will be that the notes will be used as a partial substitute for coin, and will be received at their full or nearly their full nominal value. As the notes cannot be sent abroad, or used for any other purpose than that of paying debts within the country, while coin can be either used to pay debts abroad or melted down and made into some useful article, there is an obvious inducement to use notes in all internal transactions, and to let coin disappear wholly or partially from circulation. A note-holder may be one who has been compelled to receive notes in payment of some debt for which he expected to receive gold, and there is no way in which he can utilise them except by passing them off on somebody else, who, in his turn, is obliged to dispose of them in the same way, and thus the notes are maintained in circulation. When a government has once begun to issue inconvertible treasury notes (*i.e.*, notes which cannot be converted into coin at the pleasure of the holder) it seldom stops until the amount of its paper far exceeds that of the coin which was previously in circulation, but as the notes are still legal tender (*i.e.*, a legal means of discharging all debts) they still remain in circulation, though their amount is far in excess of what the people require. But a greater quantity of money cannot be used to do the same work unless its value is reduced, and as soon as the notes have been issued in excess, the value of each becomes so much reduced that the whole are worth no more than the quantity of coin which they displaced. Were it not for this depreciation, a government might continue to manufacture money almost without expense, and yet obtain as much in exchange for it as those who had raised gold from the mines by the expenditure of much labour. The position of such a government resembles that of a man who has discovered an immense heap of gold. As long as he is content to take from it but a small quantity he may obtain goods at their former prices, while obtaining gold with less labour; but if he orders a vast quantity of goods in order to make use of the whole of his treasure, he will be forced to pay a higher price for them and will compel other purchasers to do the same.

As long as anyone can obtain coin for notes by presenting them to the issuer, the notes must be worth as much as the coin, but when this is no longer the case, and notes are issued in excess, a discrepancy soon shows itself between the sum which the notes bear on their face and the sum of gold which they will actually purchase, or in other words, gold rises to a premium. Gold is never completely expelled from such a country, for some is always required for the purpose of paying debts to foreigners, who usually stipulate for payment in gold in order to avoid any possible loss from receiving depreciated paper. Similar stipulations are sometimes

made between citizens, and such special agreements are commonly held to over-ride any laws which may be made to compel the acceptance of inconvertible notes; but such a practice is never carried to such an extent as to render the law a dead letter. Indeed, there is no motive which should induce the people to neutralise the action of their Government, as the introduction of an inconvertible currency is highly useful to the Government, and, up to a certain point, confers an actual benefit on the people. The Government, in effect, borrows without interest the whole amount of coin which its subjects possess, and enables the whole to be sent abroad for the purchase of foreign commodities. Thus it not only spares its subjects the taxation which would otherwise be required to pay the interest of a loan, or to provide without a loan for its financial exigencies, but it also provides them with a medium of exchange which costs very little to keep in repair, and is in some respects more convenient than coin. But when it has once passed the limit prescribed by the actual extent of the metallic circulation, and its notes have become depreciated, no further advantage is gained by continuing the issue of paper, as all further issues are followed by a proportionate depreciation of paper and rise of prices as measured in it; and what the Government gains by obtaining goods without real expenditure, is lost by individual creditors, who are compelled to receive payment of their debts in paper, which is of less value than the gold on which they had reckoned. A further issue of notes will not, as is often erroneously supposed, produce a further export of gold, for all the gold whose place can be supplied by paper has been already displaced, and though a nominal rise of prices will take place, it will not give any encouragement to importation from abroad, for foreigners, as before observed, require payment in gold, and a nominally high price offers no inducement to send goods from a foreign country where prices are really low. It seems to be commonly supposed that the inconvertible currency of the United States holds out a permanent encouragement to importation from Europe, and I have observed some remarks in the "Times" in reference to the bill which passed through Congress in 1874, authorising an increased issue of inconvertible notes, which showed that the writer expected a further export of gold to follow on the adoption of the bill. The bill in question was vetoed by the President, and did not become law, but I think that nothing more is needed to show that if it had come into operation it would not have had any such effect, nor to show that the use of "greenbacks" has not been the cause of unusual importations from Europe. As the notes professed to be equivalent to gold, the rate at which they actually exchange for it furnishes a satisfactory test of their depreciation. If a thousand francs in gold will sell for eleven

hundred francs in notes, it is obviously correct to say that the notes are depreciated to the extent of ten per cent.; and as the premium on gold varies, we may correctly say that the notes become so much more or less depreciated. But it is not quite so certain whether the cause of the variation is in the gold or in the notes, and there is good reason to believe that it is sometimes in the one and sometimes in the other. An increase in the quantity of the notes is pretty sure to raise the premium on gold, but it does not, therefore, follow that every rise in the premium is due to a greater issue of notes, or that a fall must be owing to a contraction of the currency. Experience, indeed, furnishes ample evidence that the premium on gold may rise and fall considerably while the quantity of notes remains the same. Perhaps the most remarkable instance is afforded by the experience of Russia at the time of Napoleon's invasion. The Russians, at that time, used inconvertible notes to discharge all the ordinary functions of money, and gold had long borne a high premium. The Russian Government could not have chosen such a moment to diminish the amount of their outstanding notes, but the premium on gold continued to fall as the French army advanced towards Moscow. The explanation which Tooke has given of this curious circumstance is that an unusually large quantity of gold was remitted to Russia from foreign countries in payment for Russian produce previously exported. The Russian merchants were unwilling to receive English goods on any terms, because they feared that Napoleon would destroy whatever English goods he found, in his eagerness to ruin English commerce, and English merchants were, therefore, obliged to remit gold. The sudden importation of so large a quantity produced a temporary fall in its value, but as the notes were inconvertible, and nothing had occurred to lower their value, they would exchange for a greater quantity of gold. As the French retreated from Moscow the premium on gold continually rose, because the Russian merchants, being no longer afraid of Napoleon, began to replenish their stocks of English and other goods, and required gold for exportation. In the United States, where an inconvertible currency has been maintained ever since the commencement of the civil war, the premium on gold has fluctuated considerably, and was at one time as high as 130 per cent. This was during the war, but after peace had been restored, the Federal Government continued to buy up and cancel its notes, and so to reduce the premium on gold, until in 1868 an Act was passed prohibiting any further contraction of the currency. By that Act, which came into operation on the first of January, 1869, the amount of greenbacks was fixed at two milliards, but it was further enacted that an amount equivalent to two hundred and twenty million francs should be retained in the Treasury as a reserve in

case of need, so that the whole amount actually in circulation falls short of one milliard and three-quarters. Although this amount has remained stationary since the passing of the Act, there have been several variations in the premiums on gold. In 1869 it was 30 per cent., and on one occasion, in September of that year, it was raised, by the manœuvres of certain speculators, to 60 per cent. The Government requires that customs duties shall be paid in gold, which makes it imperative for importers of duty-paying articles to procure gold; and the speculators in question contrived to buy up nearly all the gold which was offered for sale in New York, and produce an artificial scarcity by refusing to sell it. The name of "Black Friday" which was given to that day, affords a memento of the alarm experienced by the unfortunate merchants who required gold on that particular day, and who would, no doubt, have paid a much higher premium if the Federal Government had not intervened and agreed to sell so large a quantity of gold, at a premium of 30 per cent., as effectually relieved their embarrassments. I do not mean to say that these fluctuations in the price of gold are explained by saying that gold was abundant in the one case, or scarce in the other, but merely wished to establish the fact that the premium may, and does, vary, while the quantity of the notes remains unaltered. Since 1869 the premium on gold in the United States has been considerably reduced, and may be taken on the average at about 12 per cent. This fall may be the natural result of the increasing population and wealth of the country, which, by increasing the value of the commodities exchanged, have increased the value of the currency exchanged for them, or it may be partly the result of the accidental destruction of a portion of the paper currency.

The disadvantages of a depreciated currency are the uncertainty which it introduces into monetary transactions by its constant liability to varying value, the loss which it imflicts on those who are the first to receive payment in it, and the comparative facility which it affords for forgery. Gold constantly varies in value, but the use of inconvertible paper affords an additional cause of variation, and the loss thus inflicted may be considerable, and is a hardship for which the government is responsible. Forgery again is practised where the currency is metallic; but it is more difficult for unskilled persons to detect forged notes than bad coin. Some years ago, the United States Government discovered that a widely-spread conspiracy had been organised in one of the Southern States to forge and utter small notes. When coin has been expelled from circulation, it is necessary for the government to issue notes of very small denominations, and to a people who, like ourselves, are accustomed to use notes only for large sums, it may appear inconvenient to have such a

great variety of pieces of paper, all representing different sums. But this is merely a matter of habit, and I have been assured by a gentleman who stayed for some time in Vienna (where nothing but paper is seen in circulation), that though he was at first bewildered by the multiplicity of the notes, yet two or three days' practice was sufficient to familiarise him with them, after which he had no more difficulty in distinguishing between different notes than between different coins. Another traveller once told me, that having passed from Canada into the United States, he brought with him a small silver coin which had been struck at the United States Mint, and tendered it in payment for a newspaper. The newspaper boy regarded it suspiciously, and it was only on learning that his customer had no small notes that he consented to take the coin at par. While, therefore, no one would recommend a government to make an excessive issue of inconvertible notes, unless in a case of necessity, there is no occasion to indulge in extravagant lamentations over the condition of a people who finds it necessary to submit to it. The groans uttered by Burke over the depreciation of the "assignats" issued at the time of the French Revolution appear ridiculous, when he himself acknowledges that the depreciation did not at the time, when he was writing, amount to more than seven per cent.

Having thus seen that the value of inconvertible treasury notes is regulated by other circumstances besides their amount, we shall be prepared to find that when bank notes are made inconvertible, the premium on gold rises and falls independently of the fluctuations in the amount of the circulation. Some governments have, when desiring to raise a loan, borrowed the required amount from a bank, and have exempted the bank from the necessity of cashing its notes on demand, and as this secures a larger circulation for its notes, the bank is better able to afford the loan. These notes, as far as their functions are concerned, are in all respects similar to Treasury notes, as they are used in all payments, are commonly issued for small amounts, and, if not actually made legal tender, are seldom, if ever refused. But the important difference between the notes of a bank and those issued by a government is, that the latter is able to determine the amount of notes which it will keep in circulation, while a bank is liable to have its notes returned to it, and even though it is not obliged to cash them, it cannot issue more than its depositors choose to ask for. Its depositors only ask for so many notes as they require to pay for the commodities which they buy, and there is nothing to induce them to draw out larger quantities than are necessary for the purpose. If there is a general rise of prices, they will require more notes with which to pay them; but the mere fact that the notes are inconvertible will not induce the bank to give, or the

depositors to apply for, larger credit. If some depositors draw out a more than usual quantity of notes, these will most probably be soon returned to the bank by other depositors, as there is no advantage in retaining notes which the holder does not require in his business. Thus, if the circulation is left to be regulated by the bank and its customers, inconvertible notes will not, as a rule, be depreciated to more than a slight extent as compared with gold, and the amount of the circulation will be much the same as when the notes are convertible, due allowance being made for the increase obtained by the issue of small notes. Gold may bear a slight premium, perhaps two or three per cent., because it can be used for foreign as well as for internal payments, while notes can only be used within the country, and the process of exchanging notes for gold is not so easy as when they are convertible. But, as a rule, the notes are worth as much gold as they profess to be, and this method of raising a loan is perhaps the least objectionable which a government can resort to. The French Government obtained in 1870 a loan of a milliard and a half from the Bank of France, for which it agreed to give the bank 2½ per cent., and also exempt it from the obligation to cash its own notes, and the French people have certainly suffered less from this loan than from any other portion of the enormous debt which the war brought upon them. As a rule, the notes of the Bank of France have been at par since they became inconvertible as they were before, and the premium on gold, though it has sometimes appeared, has never, I believe, exceeded 2½ per cent. In his inaugural address delivered on November 19th, 1872, Dr. Farr, then president of the Statistical Society, observed: "Inconvertible paper money is a mirage; the American dollar, the Austrian florin, the Spanish escudo, the Russian rouble, the Italian lira, are paper units, necessarily fluctuating in value with the demand and with the quantities emitted; and now the franc, on which some people have inclined to lean, has sunk into inconvertible paper, slightly depreciated, and is subject to all the caprices of the issuing department of the Government."* However applicable these remarks may be to the other countries named, they are not correct in regard to France, for the notes of the Bank of France are not only limited in their amount by law, but are issued like those of the Bank of England and of other banks in accordance with the wants of depositors, and not in accordance with the caprices of the Government. Their amount is somewhat more than two and a half milliards, and it might be thought strange that so large an amount can find employment without being depreciated, when the greenback-currency of the United States, which amounts to less than

* Journal of the Statistical Society for 1872, p. 421.

two milliards, is depreciated to the extent of 12 per cent. It must, however, be borne in mind, that the Bank of France is the only bank which is allowed to issue notes in France, and that its notes therefore constitute the whole of the paper-currency of the country. In the United States, on the other hand, there are many National Banks which are allowed to issue notes, and these, if added to the greenbacks, make up a total of more than three and a half milliards. The paper-currency of Italy only amounts to one milliard, and yet it is depreciated to the extent of 10 or 15 per cent. Italian notes are issued by four banks, but the issues are, I believe, regulated by the Government, and not by the depositors in the particular banks.

The most remarkable instance of an inconvertible bank-note currency which England has ever afforded was during the long period 1797-1823, commonly known as the period of "Bank Restriction," when the Bank of England was exempted from the obligation of cashing its notes on demand. The discrepancies which were sometimes observed between the prices of gold bullion when measured in sovereigns and in bank notes gave rise to a controversy which is not yet ended, and which, if it had conferred no other benefit on Political Economy, would have been memorable from its having been the occasion which induced Ricardo to publish his first contribution to the science. The Bank of England was in great danger of stopping payment in the early part of 1797, and a Minute in Council was issued on the 26th of February which was intended to relieve its embarrassment by exempting it from the obligation of cashing its notes. The Minute was confirmed and extended by two Acts of Parliament, passed in the same and following years (37 George III., cap. 91, and 38 George III., cap. 1), the latter of which continued the restriction until the close of the war with France in which the country was then engaged. But, as often happens in such cases, what was intended as a temporary expedient was maintained long after the occasion which called it forth had passed away, and the Bank was not compelled to resume the practice of cashing its notes until 1823. During this long period the Bank carried on its business as usual in all other respects except that of cashing notes on demand; but its notes, though inconvertible, were received in payment of public taxes, and in all private transactions. There was no reason why its depositors should draw out more notes than they required, and the Bank had little temptation to give credit to persons who had not the means of payment, for there was no means of knowing how soon the restriction would be removed, and as soon as this should occur the Bank would be responsible for all its notes. As a rule, the notes of the Bank were worth very little less than the gold which they represented, and

during the seven consecutive years 1803-1809 the premium on gold never much exceeded 2 per cent. But in 1810 the premium rose to a high point (15 per cent.), and as this rise coincided with an immense increase in the amount of notes in circulation, it was very naturally supposed that the high premium on gold was the result of the excessive issue of notes. It was on this occasion that Ricardo published his first work, a pamphlet, whose object is sufficiently indicated by its title, "The High Price of Bullion a Proof of the Depreciation of Bank Notes." In this pamphlet he gave promise (a promise which he afterwards so amply redeemed) of being able to grapple with the most difficult problems of Political Economy; but it is not necessary to agree with his conclusions in order to admire the breadth of view which he displayed, and the skill with which he arranged his arguments. Had the question been merely whether the premium on gold would have disappeared if the notes had been convertible, there could hardly have been two opinions on the matter, for no one would have paid a premium of 15 per cent. for gold which he could have obtained at par by taking his notes to the Bank. But Ricardo contended for more than this; and strove to show that the Directors had, by excessive issue, not only depreciated their notes as compared with gold, but had also depreciated the whole English currency of gold and notes, as compared with the currencies of foreign countries. To establish the first of these points he thought it sufficient to say that the value of money depended on its quantity, and that the Directors had the power of increasing their issues at pleasure. So long as their notes were convertible they were obliged, according to him, to restrict their issues to such an amount as would circulate at par, but when restricted from paying in specie they were able to regulate their issues "at pleasure." I have endeavoured to show that the Bank was almost, if not entirely, passive in the matter, and that the variations in the amount of the circulation depended not on the caprice of the Directors, but on the requirements of the depositors. Nor was the amount of the circulation a matter of indifference to the Directors; for, though they were not allowed to cash all the notes which might be presented, they were allowed to make special agreements with persons who brought bullion to the Bank, which bound them to return bullion in exchange for notes presented by the importers, though they might not in this manner part with more than three-fourths of the bullion thus brought to them. As, moreover, they were continually required to furnish gold to the Government for the pay of troops, etc., they were obliged to keep a considerable store of gold in their vaults, and a depreciation of their notes would have inflicted a loss upon them when they came to

purchase bullion. Bank notes, it must be remembered, were not then legal tender, and though it would certainly have been difficult for the people of London to dispense with them, the Bank had no power either to force them into or to keep them in circulation if the public did not require them. Notes are returned to a bank whenever the possessor does not require to keep them by him for the purpose of making payments, and the bank has no means of determining whether the notes shall be returned on the same day as they are issued, or shall remain out for twenty years. How then, it may be asked, did it happen that the notes were depreciated in 1810, and why was the depreciation coincident with, if it was not caused by, an increase in their amount? This question, which may at first sight seem a difficult one, will not seem unanswerable when we consider the cases which have been cited above of the variations in the value of an inconvertible currency in Russia and the United States. There are two ways in which a premium on gold may be produced, viz.: a fall in the value of paper, and a rise in the value of gold. The latter cause seems to me to be that which operated in 1810, and the value of the notes was either stationary, or may have experienced a slight rise. I have spoken of the notes as depreciated because they were not worth what they professed to be, but have not meant to imply that there was an actual fall in their value. Of course it would be useless to dispute as to whether notes had become less valuable when compared with gold, or gold more valuable when compared with paper. In considering whether the value of either had fallen, I mean their value as measured by labour. I have no table of wages which might determine this question, but Tooke's account of the prices of several of the principal articles of commerce shows that there was a pretty general fall of prices in 1810, and, therefore, tends to show that the value of notes had risen. The large issue of notes which took place in that year, and which exceeded by 175,000,000f. the amount in circulation in the previous year, is one of the ordinary concomitants of a commercial crisis such as had then taken place. More notes were issued, not because the directors wished to increase the amount, but because merchants and others wished to provide themselves with a sufficient amount of good paper in which the public had confidence in order to meet their liabilities. The number of commercial transactions was probably diminished, but more bank notes were required to perform the functions which had been previously performed by bills or cheques on traders and bankers who had became insolvent. Had the bank refused to increase its issues the number of failures would have been largely increased, but it may be doubted whether the premium on gold would have been a wit the less. That premium was owing to the fact that the notes were inconvertible

at a time when gold was difficult to procure, and was very urgently required for exportation. Ricardo contended that gold was only required for exportation because it was depreciated, and that this depreciation was the consequence of an excessive issue of notes. He maintained, very correctly no doubt as a general principle, that a commodity can only be exported when it is cheaper in the exporting than in the importing country, and that gold does not, in this respect, differ from other commodities. Unquestionably gold would not be regularly imported from Australia into England if it were not cheaper in Australia, any more than coals would be exported from Newcastle to London if they could be more cheaply produced in London than in Newcastle. But it does not follow that gold can never be exported unless its value in the exporting country has diminished. In the case in question gold was required for subsidies to foreign governments, for the troops serving abroad, and to pay for large importations of corn to supply the defects of the harvest. It is quite true, as Ricardo remarked, that gold would not have been sent for these purposes if the same object could have been obtained by exporting cloth or other commodities, but it by no means follows that gold must have been depreciated because no other commodities could be sent. Ricardo asked what should prevent foreigners from receiving English goods, but the circumstances of the war in which we were then engaged afforded sufficient explanation. Napoleon carried on war in a way which has never been paralleled before or since, and forced every government whom his influence could reach to prohibit the importation of English goods on any terms whatever, and it is difficult to imagine any circumstance which could act as a stronger inducement to foreigners to refuse to receive our goods. But even without such an explanation, there is no difficulty in accounting for the unwillingness of foreigners to receive English goods at the particular moment when England wished to make a large payment abroad. The very reason why gold has been chosen to serve as money is that it may effect exchanges between persons each of whom does not happen to possess the article which the other requires. To say that gold is depreciated whenever it is exported is to say that it becomes less valuable whenever it is used to discharge the only function for which it can be used. The English Government undertook to pay subsidies in money because money is the only thing which is at all times required, and it would be difficult to show why the fact that a subsidy was promised should at once produce an extra demand for the goods of the subsidising country. It would be arguing in a circle to contend that gold was exported because it was depreciated, and then to give the exportation as the sole proof of the depreciation. Ricardo saw that the introduction of a forced paper-currency was always followed by

an exportation of gold, and he, therefore, supposed that the addition of a large quantity of paper to the money already in circulation lowered the value of the whole currency, raised prices, and encouraged the export of bullion to pay for commodities imported from countries where prices were lower. But though the fact is certain, it is not quite certain that this is the true explanation. Gold is exported because paper takes its place, but the substitution of the one for the other may be effected without a general rise of prices. The introduction of a forced currency generally follows on the outbreak of a war, or some other disturbance of industry, and at such a time merchants require gold to settle their accounts with foreigners, and it is exported in large quantities. The paper, which cannot be exported, takes its place in the home circulation, and even though foreigners should send large quantities of gold immediately afterwards to settle their outstanding accounts it will not appear in circulation, but will remain stored up in the banks or in the Treasury. However this may be, the export of bullion, if it is ever produced by the establishment of a forced currency, can only be produced once by this cause, viz, when it is introduced, and any effect of this kind, if ever produced in England, must have occurred in 1797, and not in 1810. After the paper has once expelled gold from circulation, no further depreciation will hold out any encouragement to importation from abroad, for the depreciation will be confined to the paper, and a merchant can gain nothing by buying goods at low prices abroad where he pays in gold, and selling them at high prices in a country where he must receive payment in depreciated paper. Ricardo, indeed, seems to have thought that an increase in the amount of the notes lowered the value of gold, but it is difficult to understand what was his reason for thinking so, for if gold and paper had been equally depreciated by the same cause there would have been no premium on gold. He seems also to have thought that the depreciation was steadily increasing, but if this had been so the exchanges must, on his own showing, have been always unfavourable, whereas they were often in favour of this country. The experience of France and the United States at the present time, and indeed of all countries which possess a forced currency, shows that where that system prevails the exchanges are alternately favourable and unfavourable, as happens with other countries. But in other countries an export of bullion does not cause the market price to rise above the Mint price, because it can always be procured at the latter rate in exchange for bank notes. If its value rises on such an occasion, the fact is shown by a fall of wages, but in 1810 wages were measured in paper, and it is possible that they did not fall, but that gold rose in value for a time without the value of paper being affected. Ricardo himself

observes—"At present gold coin is only a commodity, and bank notes are the standard measure of value."* So that while gold being at a premium would command more labour, the nominal rate of wages may have remained the same.

Ricardo was not ignorant of the argument that there is a distinction between bank notes and gold as regards their effect upon prices, for it was frequently urged in defence of the Bank of England by his contemporaries; but he considered, as many persons have considered since, that he had refuted it. Among others, Bosanquet, a London merchant, contended that the issue of notes by the Bank could not raise prices because they were only issued by way of loans and discounts, while he admitted that the discovery of a mine would raise prices. To this Ricardo replied:—"Now, supposing the gold mine to be actually the property of the Bank, even to be situated on their own premises, and that they procured the gold which it produced to be coined into guineas, and in lieu of issuing their notes when they discounted bills or lent money to Government, that they issued nothing but guineas; could there be any other limit to their issues but the want of the further productiveness in their mine? In what would the circumstances differ if the mine were the property of the king, of a company of merchants, or of a single individual? In that case Mr. Bosanquet admits that the value of money would fall; and I suppose he would also admit that it would fall in exact proportion to its increase." (Reply to Mr. Bosanquet's observations, &c., chap. v.) This seems but a slight variation of the hypothesis, and yet, in reality, it entirely alters the question, for it supposes the Bank to engage in a non-banking operation. In the case supposed, there would, no doubt, be a fall in the value of money, but this would be occasioned by the greater facility of procuring gold from the mine, not by the operations of the Bank considered as a bank. The mine being supposed to be more fertile than those previously worked, the workmen engaged in it would receive higher wages, and the rise of wages would soon extend to those engaged in other mines, and by degrees to all other classes. The general rise of wages would necessitate a general rise of prices, and this again would enable the merchants and others who dealt with the Bank to send larger bills for discount, and to draw larger cheques against them, and thus the amount of the currency would be gradually increased because its value had fallen. Such a rise of prices could not be produced by an issue of bank notes, because the Bank only gives credit to its customers in proportion to the amount of the securities which they can offer, and this amount depends on the

* Works, M'Culloch's Edition, 1846, p. 278.

prices of the goods which they have sold ; so that the amount of the notes in circulation is the effect, and not the cause, of the general range of prices. It does not matter whether the circulating medium be composed of metal or of paper, for in either case the same effect would be produced in the same circumstances, and Ricardo was perfectly right in maintaining that, other things being equal, the value of money would vary inversely as its quantity. What seems to have escaped him is that there is a difference between the modes in which bank notes and coin come into, and remain in, circulation, and that this difference prevents the former from being issued in excess, *i.e.*, in quantities so large as to depreciate them. M'Culloch, in his "Literature of Political Economy," makes the following remarks on Ricardo's "Reply to Mr. Bosanquet's Observations:"—"This is, perhaps, the best controversial essay that has ever appeared on any disputed question of Political Economy. In it Mr. Ricardo met Mr. Bosanquet on his own ground, and overthrew him with his own weapons. He examined the proofs which Mr. Bosanquet had brought forward of the pretended discordance between the facts stated in his own pamphlet, which he said were consistent with experience, and the theory laid down in the Bullion Report ; and showed that Mr. Bosanquet had either mistaken the cases by which he proposed to try the theory, or that the discrepancy was only apparent, and was entirely a consequence of his inability to apply the theory, and not of anything erroneous or deficient in it. The victory of Mr. Ricardo was perfect and complete ; and the elaborate errors and misstatements of Mr. Bosanquet served only, to use the words of Dr. Coppleston, 'to illustrate the abilities of the writer who stepped forward to vindicate the truth.'" The eulogium contained in the first of these remarks is well merited, but I should rather apply to this pamphlet the praise which Macaulay gives to Boyle's answer to Bentley, that it is the best book ever written on the wrong side of a question. The history of physical science furnishes more than one instance in which a great man, who was a master of the art of arguing, has obtained an apparent victory over an opponent whose powers of exposition were inferior, but who has since been found to have had some truth at least on his side. Bosanquet was not able to state his views clearly enough to defend them against the attacks of so perfect a master of fence as Ricardo, who, on his part, was always ready to seize on every opportunity for making a dexterous thrust. Bosanquet, for instance, said that bank notes were only issued in the quantities required to supply the wants of commerce, and Ricardo at once fastened on the expression as being too vague, and said that no quantity could be too great for such a purpose, and that if the value of money fell to one-tenth of what it had been, commerce would at once require ten times as

large a quantity. All this is true enough, but it is really beside the question, which is, whether a large issue of notes can depreciate money, not whether the depreciation of money can cause a large issue of notes. Bosanquet contended that the Directors of the Bank did not increase the circulation at their own pleasure, because it depended on the depositors how many notes should be issued, and how long they should remain in circulation, and Ricardo did not give any satisfactory answer to this argument. It might be thought that when the Bank was relieved from the obligation of cashing its notes on demand, the Directors would have become less cautious in giving credit, but this cannot have been the case, for, as Ricardo himself mentions, the amount of the annual dividend and the price of Bank Stock doubled during the period of the restriction.

Soon after the appearance of Ricardo's pamphlet the House of Commons appointed a Committee (which has since become so celebrated as "The Bullion Committee") to investigate the causes of the high price of bullion, and their report agreed in the main with the views of Ricardo. Like him, they ascribed the high price to an over-issue of bank notes, and, like him, they recommended a return to specie payments. Lord King gave a practical turn to the controversy by sending a circular to his tenants, informing them that he would not receive Bank of England notes in payment of their rents except at a discount, and requiring them either to pay in gold, or, if they paid in paper, to bring as much as would purchase the amount of gold which was due. He was a Political Economist who shared the views of Ricardo on this subject, and his object in taking this step was to bring public opinion to bear on the Directors of the Bank, and thus compel them to restrict their issues. It thus became necessary for Parliament to decide whether any action should be taken in the matter; and, in spite of the report of the Bullion Committee, an Act was passed depriving landlords of the power of distraining on tenants who offered payment in notes, and the resumption of specie payments was not ordered till 1819. Bank notes were not actually made legal tender till 1832, and though landlords were not allowed to distrain, they, like all other creditors, were able to sue at common law for payment in gold during the continuance of the restriction. The interference of Parliament, of course, settled the pecuniary question between Lord King and his tenants, but the economic question could not be disposed of in such a summary way; and though the law was obeyed, the House of Commons has incurred no small amount of ridicule for its conduct on this occasion. The House agreed to a string of resolutions moved by Vansitart, the Chancellor of the Exchequer; one of which, the third, affirmed that Bank of England notes were equivalent, in public estimation, to the gold which they

represented. This resolution has become one of the stock examples of the folly of legislative bodies. The late Sir John Bowring stated, as instances of the ignorance of English politicians at the beginning of this century, that a Minister informed Parliament that Demerara was an island, and that Parliament itself declared that a pound-note and a shilling were worth a guinea, which sold for twenty-eight shillings in the market; as if the economic ignorance exhibited in the latter case were fully equal to the geographical ignorance displayed in the former. It would seem, however, that though the language of the resolution was unfortunate, those who voted for it intended it to represent a correct opinion. They meant to affirm that notes were received in all ordinary transactions at the same rate at which gold would have been taken if tendered, and that nothing was said of any reduction in consideration of payment in gold. In the United States, at the present time, commodities have two prices, according as they are paid for in gold or paper, but this was not then the case in England. Prices were fixed in accordance with the value of the articles as compared with gold, but bank notes were received in payment without any discount, whether the premium on gold was high or low. The premium made its appearance in subsequent years, but it was not a constant phenomenon, but only appeared when gold was required for exportation.

Whatever difference of opinion there may be respecting the liability of inconvertible notes to become depreciated, it seems strange that anyone should suppose that notes can become so when people have both the power and the will to obtain gold in exchange for them by simply taking them to the bank which has issued them. I say, the power *and the will* for a law is not enough to secure convertibility, if the habits of the people are opposed to it. Strange as it may sound to an Englishman, public opinion in the United States is said to condemn as "sharp practice," the presentation of a note which professes to be payable on demand, and the exaction of the fulfilment of the promise. Bank notes thus become practically to some extent inconvertible, and are sometimes depreciated to the extent of 3 or 4 per cent., as they are less useful than gold. But where, as in England, bank notes are constantly presented for payment to the banks which issue them, there cannot be any difference between the nominal and the actual value of notes as long as the bank remains solvent. It is probable that this would never have been disputed if there had not been a controversy respecting the depreciation of notes at a time when they were inconvertible, but the controversy has survived the circumstances which gave it birth. The cause which Bosanquet pleaded was taken up and more ably handled by Tooke, whose voluminous "History of Prices" is an exhaustive refuta-

tion of the fallacies and misstatements put forward by various writers, who ascribed almost every rise of prices to the capricious management of the Bank of England. Colonel Torrens came forward to defend the accuracy of Ricardo's opinions against the assaults of Tooke, and though in the meantime the Bank had resumed specie payments, he nevertheless maintained that it could and did depreciate its notes by over-issue. He could not, indeed, maintain that any note-holder would buy gold at a premium when he could obtain it at par by simply presenting the note at the bank, but he maintained that the presentation itself was a proof of depreciation. As Ricardo had contended that gold could not be exported unless it was depreciated, so Torrens contended that a note could not be presented for payment unless its possessor found that it was less useful to him than gold, and Torrens considered that this was the same as depreciation. In fact, however, notes are frequently presented, not because the holders have any fear that they will not be received at par, but simply because they desire to get change for making small payments, and the presentation of a note no more proves that it is depreciated than the sending of gold to the Bank of England in exchange for notes proves that gold is depreciated. Perhaps Tooke's language on this subject was somewhat faulty, for he maintained that bank notes could never be issued in excess, because, whenever any one had any notes which he did not require, he would take them to the bank and the superfluity would be at once removed. Torrens replied that this amounted to contending that the existence of the effect proved the non-existence of the cause, and he admitted that convertible notes could not be permanently depreciated, but contended that there might be a temporary depreciation. It is singular that he should have contended with so much earnestness for such a paltry victory, for if we admit his argument to be correct, it amounts to nothing more than saying that a bank note may be received by a person who does not wish to keep it, and that it is depreciated during the half-hour which elapses while the holder is walking to the bank and getting it cashed. His argument with regard to the exportation of bullion is much the same as Ricardo's, although he had had the advantage of studying the facts which had been collected by Tooke to show that an export was frequently brought about by circumstances unconnected with the state of the currency. The most common cause of an export of bullion is a bad harvest, which produces a sudden demand for foreign corn without producing a foreign demand for the commodities of the corn-importing country. This is well known to all persons engaged in business, and was stated by Thornton and Bosanquet in Ricardo's time, as it was afterwards by Tooke. Ricardo's reply has been already noticed, but that of Colonel

Torrens is somewhat different, and is an endeavour to save the theory while admitting a fact which is in direct opposition to it. He says: "When from a deficient harvest, the proportion between the quantity of commodities and the amount of circulating medium becomes less in any particular country than in other countries, the currency of that country, although not increased in actual amount, is rendered relatively redundant. And should the currency consist of convertible paper, the issue of such paper upon whatever securities, or however urgently demanded, would be an excessive issue, leading sooner or later to inevitable contraction, more abrupt and calamitous the longer it should be delayed." * Thus, while admitting that the export of bullion is caused by a bad harvest, he nevertheless ascribes it to a redundant currency, and says that this very redundancy is caused by the bad harvest. This may save the theory, but only by depriving it of all value, for if the currency is said to be redundant merely because the prices of one or two articles have risen, it may be called redundant at any time when it suits the purpose of the writer, and no light is really thrown on the causes of the export of bullion. The real question is whether an increase of bank notes produces the same effect as the discovery of a fertile mine upon the foreign trade of a country, and this question cannot be solved by merely calling the currency redundant whenever bullion is exported. That bankers have no power to determine the amount of their circulation is a fact which is patent to all who have attentively observed the mode of their operations. Every one who has ever presented a cheque to a bank knows that he has been at once asked "How will you have it?" and according to the nature of his reply has received notes, or gold, or both. This is the only way in which notes can come into circulation; and thus, unless the law interferes, the amount of the issues is entirely determined by the customers or those to whom they give their cheques. As, moreover, persons who do not require the notes which they receive send them back to the bank, either directly or through the medium of other banks, it is the public which determines the length of time for which the notes are to remain in circulation. But, say Ricardo and Torrens, if banks have no power of forcing notes into circulation, how did bank notes ever come into use at all? If the circulation was already sufficient before banks were established, how were bank notes able to supplant coin except by depreciating it and expelling it from the country? The difficulty is only apparent, for though it is true that banks could not, in the first instance, obtain a circulation for their notes

* Principles and Practical Operation of Sir Robert Peel's Bill of 1844, &c. London, 1848, p. 76.

without offering them to their customers, yet it is the customers who determine the amount which they will take. Persons who would otherwise have asked for coin ask for notes instead, and the coin is gradually paid back into the banks, while the notes take its place in the circulation. Bankers, finding that coin is not asked for so much as formerly, are not obliged to keep such large reserves, and as it is almost always necessary to send bullion to some foreign country or other, the surplus gradually disappears. Ricardo and Torrens would, no doubt, say that in such a case gold is redundant, and, in a certain sense, it is, but it does not follow that any rise of prices, or any fall in the value of gold takes place. At all events, an export of bullion under such circumstances is not a thing to be deplored, but is a benefit to the country.

It may be as well briefly to recapitulate the principles which it is the object of the present chapter to establish. Convertibility affords the only infallible means of securing that the value of a paper currency shall always be equal to that of the gold which it represents. When inconvertible paper is issued to defray the expenses of a Government there is no limit to the possible extent of its depreciation, because the Government may force unlimited quantities into circulation. Such a Government is in a position similar to that of the discoverer of a mine, and it is not without reason that the French apply the name of "papier-monnaie" to inconvertible paper. When the notes of a bank are made inconvertible, but the bank is allowed to continue its business just as before in all other respects, there may be some depreciation, but it is neither so great nor so permanent as in the case of Treasury notes. When bank notes are practically convertible they can never be depreciated. Bank notes, whether convertible or not, provided only that they are issued by the banks according to the requirements of their customers, can never produce a general rise of prices, but the amount of the circulation depends upon the general range of prices and the amount of business done.

CHAPTER VI.—RESTRICTIONS ON BANKING.

FREE TRADE IN BANKING—PRIVILEGED BANKS—JOINT STOCK BANKS —ISSUE OF NOTES—BANK OF ENGLAND—COUNTRY BANKS— SCOTLAND AND IRELAND.

THE business of money-lending has for ages been viewed with disfavour, and it is not difficult to understand why there should always exist a prejudice against men who seem to earn a living by taking advantage of the necessities of other people. In some countries the lending of money at interest, or, as it is called, usury, has been totally prohibited ; while in others it has only been allowed to be practised by persons standing in the position of social outcasts. As civilization advances, the prohibition of usury is found to be so inconvenient that legislators content themselves with regulating a trade which they cannot suppress ; and allow interest to be charged, provided that it does not exceed a certain maximum. Although the Usury Laws have now been repealed in England, France, and other European countries, the notion still seems to prevail that money-lending is a business which, more than others, requires to be watched over and regulated by the State. Even those who are most anxious to secure to other traders the most complete liberty to manage their business in whatever manner may seem best to them, are not inclined to admit that the same arguments are equally applicable to the case of bankers as to those of corn dealers or sugar refiners. Cobden, who devoted some of the best years of his life to an agitation in favour of Free Trade in corn, was one of the supporters of the Bank Act of 1844, which imposed the most stringent and unheard of restrictions on trade in money. It is remarkable that the American protectionist, Mr. Carey, is in favour of allowing bankers to manage their business in their own way, without interference from the Government. It would appear, therefore, that neither of these eminent men has been led to his conclusions by political considerations as to the value of liberty in the abstract, but that each was guided by his opinions as to the teaching of Economic Science. It is, therefore, of some importance to consider what light can be thrown on the political question by reference to economic principles ; and this is the object of the present chapter.

As an instance of the views commonly held respecting the propriety of granting to bankers the same liberty which all other subjects consider

themselves entitled to enjoy in the management of their own affairs, I may cite a passage from the well-known work of Tooke, who was one of the most strenuous advocates of the repeal of the Corn Laws, with whose mischievous effects he, as a corn dealer, was practically and most disagreeably acquainted. He says :—"I agree with a writer in one of the American papers, who observes that Free Trade in Banking is synonymous with Free Trade in Swindling. They (Claims for Freedom of Banking) do not rest in any manner on ground analogous to the claims of freedom of competition in production. The claims for such freedom of competition are on the part of the public, and are alone of paramount consideration. But the issue of paper substitutes for coin is no branch of productive industry. It is a matter for regulation by the State with a view to general convenience, and comes within the province of police." (History of Prices, vol. 3, chap. 4, sec. 3, page 206.)

That a writer who is so honourably distinguished by moderation and fairness, should endorse so strong an expression as "Free Trade in Swindling" as an epithet to denote a system of which he did not approve, affords a remarkable instance of the extent to which the judgment of the calmest enquirers may be perverted by their feelings. Tooke might have remembered that in most instances in which the State has stepped in to regulate a trade, it has done so on the ground that such a course was necessary for the prevention of fraud, and yet no one now contends that the public interest would be better served if the trade guilds were re-invested with their ancient powers.

Those who advocate Free Trade in Banking do so on the ground that such a system is the best for the public interest, and not merely because they consider that bankers have a right to do as they please in their own business. It is true that banking is no branch of productive industry, but this is equally true of corn dealing, which is simply a distribution of corn already produced, and Tooke gives no reason why an argument which is applicable to productive should not equally apply to other kinds of industry. Englishmen have now been convinced that the supply of corn can be best maintained by allowing corn dealers to buy such quantities as they require at whatever time they choose, from any producer, whether native or foreign. Why then should we suppose that the supply of paper substitutes for coin would not be best maintained by allowing bankers and their customers to bring them into circulation in whatever quantities, and at whatever times, they find to be mutually convenient. It is no answer to say that it is a mere matter of police, for this is begging the very question in dispute, and not telling us why it is a fit subject for State control. Tooke goes on to expatiate on the inconvenience of a circulation consisting of very small notes, and asks why, if nothing

except the discretion of the banks is to determine the minimum amount of a note, they should not issue "shin-plaisters," as the Americans call notes of very small amounts. He might as well have asked why a law should not be passed to regulate a minimum quantity of wheat or of flour, which should be sold at one time, and the answer to either question would be equally simple. Either the small note is convenient or it is not. If it is, a positive injury would be done by preventing its circulation, and, if it is not, the public would not ask for it, or accept it when offered, any more than they would purchase wheat in quantities too small to be convenient. It is but just to Tooke to bear in mind that the above passage was published in 1840, before he had become fully convinced of the merely passive character of banks in regard to the extent of their issues, and that he strenuously opposed the act of 1844, which was based on the contrary assumption. Cherbuliez* considers that competition will not suffice to protect the public in this as in other trades, because the public have not sufficient knowledge to discriminate between safe and unsafe banks. But if this argument proves anything, it proves too much, for if the ignorance of the public is a sufficient reason for legislative interference in its behalf, such interference would be quite as much called for in other trades, and most of all in those which supply the necessaries of life. The public cannot tell what frauds may be practised by dealers, who must necessarily be more intimately acquainted with their own business than the public can possibly be, and who must always have some power of using their superior knowledge for dishonest purposes. The public cannot tell for certain which are the banks that are about to fail, but they can tell which are those which have stood the test of successive commercial crises, and they have some means of knowing which are those that are managed by persons of upright character. If the government steps in to prescribe regulations which are to prevent banks from failing, the effect will be that many people will regard the banks as safe because these regulations are complied with, instead of exercising their own judgment and discrimination. As Mr. Spencer somewhere says, to provide means for averting the consequences of folly is to people the world with fools. Thus even if the State by laying down regulations for the guidance of bankers could prevent the public from suffering any considerable pecuniary loss through the failure of banks, it might still be regarded as a questionable benefit, for it would be purchased at the expense of the intellectual energies of the people, which would suffer in its capacity for self-control to the same extent as it was subjected to the control of the State. But what reason

* Vol. II, Chap. iv, sec. iii, p. 176.

is there to suppose that the government can obtain the desired end? A long succession of commmercial crises, in one of which as many as seventy banks were swept away, might have been sufficient to teach Englishmen at least that State-controlled banking cannot afford infallible security. It may be safely granted that competition does not attain perfection in this any more than in other departments of industry, but this alone is not, as Cherbuliez seems to suppose, sufficient reason for abandoning it, for we must first have some reason for believing that State regulation will serve us better; and no satisfactory reason, or at least none which is satisfactory to my mind, has yet been produced. It seems to me that Mr. Spencer, who has discussed this question with his usual vigour in his Essay on "State Tampering with Money and Banks," and more briefly in his "Social Statics," has completely proved his point, that the interference of the State in this matter is as needless, and as mischievous, as in the case of trade, or of religion. Why, he pertinently asks, should it be supposed that bankers are more desirous than other classes to ruin themselves? Bankers fail because they give credit to persons who are unable to repay what they have borrowed, and what more effectual means can be devised for rendering them cautious in this respect than is already provided by the knowledge that bankruptcy is the certain consequence of any grievous error. All dealers are obliged to exercise caution in giving credit, but to the banker it is more especially necessary, for giving credit is the very essence of his business, and it is therefore to be presumed that he will be fitted for the discharge of his difficult duty if anyone can be. In like manner those who entrust their money to the keeping of bankers are obliged to exercise caution and discrimination in selecting the firms or companies with which they will deal, and they have the strongest motive of self-interest to take all possible pains to arrive at a right conclusion. If either the banker or his customers are reckless, their failure will serve as a warning to others, and will at least prevent them from incurring further liabilities, and so put an end to the mischief which they are doing.

Every commercial crisis weeds out a number of banks which have been imprudently managed, and their disappearance brings more custom to the better-managed ones which have survived the trial; so that there is a process of natural selection constantly going on, preserving the strong, and destroying the weak, and continually adapting banking institutions to the wants of the society in which they exist. All that a government can reasonably expect to do for its subjects is to prevent the continuance of unsafe banks, and this object is already attained by the natural operations of commerce without the intervention of the state.

No government can prevent its subjects from incurring debts which

they are unable to pay, and without doing this the solvency of bankers cannot be secured. Nor is this a matter in which it is the unquestionable duty of the government to attempt something, even if it cannot attain complete success. It is, indeed, bound to see that such of its subjects as are able to do so pay their debts; but it does not follow that it ought to prescribe rules which it thinks calculated to prevent its subjects from incurring debts. Even if its interference were in some degree successful, we might still grudge the time and labour expended on it by the legislature amd executive which might have been more profitably devoted to improvements in the administration of justice. But, in truth, experience abundantly proves that its interference is never successful, but that, on the other hand, it produces inconveniences which were not contemplated when it was first resolved on.

There are three courses which have been commonly adopted by governments in dealing with this subject. Sometimes they have conferred special privileges upon one or a few banks, sometimes they have prohibited the establishment of banks whose constitution did not conform to a certain type, sometimes they have restricted the issue of notes. All these methods are united and blended in practice, for it is the privilege of issuing notes which is most commonly confined to a favoured bank, and the State does not usually interfere with the management of non-issuing banks. But as each of these methods might be defended on different grounds, they may with advantage be considered separately.

It is a common practice for a government to confer valuable privileges on the bank with which it deposits its own money, in return for which the bank lends a large sum at low interest at the time of its formation, and is expected to be ready to assist the government in time of need. In France, for example, the "Bank of France" is the only institution which is allowed to issue notes, and the same monopoly is enjoyed by the "Bank of Austria" in its own country. The Bank of England has never enjoyed such a complete monopoly; but it is the only English bank which has been allowed to increase its circulation since 1844. By establishing such banks it may be supposed that governments seek to provide their subjects with places where they may safely deposit their money, and if these banks were sufficient to supply the wants of their respective countries, this object might be attained, for they are generally managed with great prudence and success, and it is very seldom that one of them fails. Unfortunately, they can hardly suffice for all the people who would be willing to deposit money with them, and whatever benefit they may confer on the capital, and on a few large towns, they still leave the inhabitants of the country towns exposed to the danger of loss from confiding their money to less trustworthy hands. The Bank of England

has only eleven branches, and though the Bank of France has sixty, even this does not come up to the number of one for each Department, which the French Government at one time ordered it to establish, but was obliged to refrain from compelling it to do. The absence of branches of the privileged banks does not prevent people from borrowing in the country towns, for they find plenty of bankers who, though not able to issue notes, are still able to lend and borrow money; and the people are still exposed to all the losses which imprudent banking entails. Even in the large towns where the privileged banks carry on business, they are not able to obtain complete possession of the field. Their privileges enable them to obtain great success, but this very success, by rendering them old and wealthy, renders them indisposed to enter upon any new-fashioned course, so that they often let slip opportunities of extending their business, which are eagerly seized on by younger and less wealthy rivals. While, therefore, these privileges do not secure the public from pecuniary loss through the failure of banks, they give rise to a new danger, by entrusting the destinies of a whole country to the discretion of a very few men. During a commercial crisis, the banks of issue are best able to supply the increased loans which the public always require; for at such times there is a scarcity of specie, and these banks alone have the power of creating money in the shape of notes.

If, as in England and Austria, there is only one bank which can increase its circulation at such times, the most important interests of the commercial community are confided to the discretion of the directors of a single institution, and the danger of a serious mistake must be much greater than it would be if the collective wisdom of a dozen banks were brought to bear on the best mode of meeting the difficulty. Whenever a crisis occurs the directors of the bank are abused for not doing enough to relieve the pressure to which the community is exposed, and although the complaints of debtors must be regarded with some suspicion, proofs are not wanting that they are not without foundation. The Bank of England has refused, in the midst of a crisis, to advance money on the security of railway debentures, although these are considered to be such safe investments that trustees are allowed by law to purchase them. The Directors of the Bank are well aware that these debentures are safe, for, as Mr. Thomson Hankey mentions in his work on banking, they have invested a part of the proprietors' capital in this manner. But they have a rule not to advance money on such securities, and they adhere to it. In like manner the Bank of Austria, during the crisis of 1873, declined to lend money on the deposit of certain stocks on which it had not been accustomed to lend; although, as regards many of these, the Directors were well aware that they afforded ample

security. It is still more singular that they even refused to lend notes on the deposit of gold bullion, by which they would not have been exposed to any risk whatever. One of the statutes of the bank required that if a person wished to borrow on the deposit of bullion he must bring at least eighty per cent. of it in silver, and only twenty per cent. in gold. This statute had been framed at a time when silver was the standard of value, but it was still adhered to in 1873, long after gold had usurped the chief place in the circulation.

I do not say that mistakes would not be made if all banks were left to do as they liked, but if such were committed the Government would at least be in no way responsible, which cannot be said under the present state of things. In the examples just given it does not appear that either bank gained any advantage by refusing to act in the manner required, and it is evident that those who were refused assistance must have suffered serious loss.

In the discussions which have taken place on this subject it is frequently asserted that England is the peculiar country of commercial crises, and it is then sought to explain how these visitations might be averted by a reform in our currency laws. In fact, however, we have no such unenviable distinction, and the notion has, probably, no other foundation than our comparative indifference to what happens in other countries. No reason can be given for assigning the name of crisis to the state of things which prevailed in London in 1866, and refusing it in the cases of Vienna in May, 1873, or of New York, in September of the latter year. In the United States, although banking is not free, the privilege of issuing is not so unequally shared as in England, and it is necessary for the leading banks to concert a common plan of defence when a panic has become general. This plan is usually what amounts to a virtual suspension of payments, as they refuse to cash any large cheque unless presented by another banker ; so that what is taken from one bank must be paid into another, and the cash reserve of the whole body remains undiminished. Perhaps the law courts, if they were appealed to, might compel every bank which adopted this course to stop payment altogether, but nobody would gain anything by calling in the aid of the law to take such extreme measures. Such a course is the only one which the banks can take to save themselves and their customers ; and its beneficial effects are soon seen in the cessation of the panic and the maintenance of many banks which would certainly have failed if exposed to a run. It is not, however, the monetary panic which constitutes the chief evil of a crisis, nor does the cessation of the panic put an end to the distress which the crisis has caused.

The evil shows itself in the form of a scarcity of money, and a failure of credit, but the real evil is the scarcity of the commodities which

money is required to purchase, and the failure to produce the commodities for which credit is given. The most common cause of a crisis is the failure of the harvest, which renders it necessary to export large quantities of specie to pay for food, which exportation causes a great diminution in the cash reserves of the banks, and compels them, in self-defence, to endeavour to diminish their advances. They naturally decline to lend, at such times, to persons of whose solvency they have least confidence, and hence many traders who have been for some time struggling on with the aid of borrowed money, are obliged all at once to suspend payment. Their creditors desire to obtain fresh advances to replace the money which they have lost by the failure, and as the demand for loans is thus increased, failure follows failure among traders and bankers until they culminate in the stoppage of some large house which has been hitherto regarded as of unquestionable soundness. Such were the houses of Overend and Gurney, whose failure was the occasion of the English crisis of 1866, and Jay, Cooke, & Co., whose failure brought on the American crisis of September, 1873. In neither of these cases was the monetary panic of any long duration, and, indeed, in the former case it lasted no more than two days; but in both there was a consequent stagnation of trade, which continued for many months. It is not so much the failures in the City as the closing of manufactories, the dismissal of labourers, and the retrenchment of expenditure by all classes which constitutes the disaster which is deplored whenever a commercial crisis is spoken of. A bad harvest raises the price of food, and compels people to spend less upon other things, and the inevitable consequence is that many persons who have been accustomed to produce certain kinds of articles are thrown out of employment. The labour of a large section of the community, the agricultural class, is less productive than before, and as less is produced there is less to exchange, and the whole community feels the loss. Monetary legislation cannot enable people to consume what has not been produced, nor can it enable human labour to become equally productive in all seasons. It is not, therefore, with a view of preventing commercial crises that I advocate the removal of all legal privileges at present enjoyed by various banks, but merely in order that the people may have the full benefit of whatever can be done by human efforts to mitigate these dreadful calamities. It is not because a system in which there are many competing banks would be absolutely safe, but because it would be safer than one in which everything depends upon one bank that I advocate its adoption. Mr. Bagehot, while admitting that such a system would be better than that which we now maintain, does not venture to propose it, because he considers that the habits and prejudices which the old system has engendered are now too

strong to be got rid of, and that he must be content to reform instead of abolishing. Such diffidence may be cautious in a practical banker who wishes to see his proposals carried into effect at once, but as I am here discussing a scientific question I see no reason why I should not openly contend that it would be better to establish freedom of banking, and should not expect that time, which has removed so many economic prejudices, will remove these also.

The experience of Scotland and Ireland shows that a country suffers no loss from the want of a bank endowed with extraordinary privileges. It may, indeed, be remarked, that whatever disadvantages those countries have suffered through the absorption of their legislatures in the Imperial Parliment, they have at least gained something by the enjoyment of comparative freedom in banking matters. Each of them formerly possessed a bank which enjoyed a monopoly of issuing notes in the metropolis, and in each case the privilege which had been granted for a term of years was allowed to expire on the first opportunity after the passing of the Act of Union. The transference of the capital to London seems to have rendered it more difficult for the authorities of the privileged banks to persuade the ministers and parliament that the interests of a small corporation were identical with those of the people. In both countries the indifference of parliament lasted long enough to allow several issuing banks to spring up, and to familiarise the people with their notes to such an extent that these have almost superseded coin. This universal confidence is not misplaced, for bank failures are rare, and certainly do not cause more suffering than those which take place in England, in spite of all the care which the government takes to prevent them. The object of English legislation has been to limit the number of issuers, but this object has been much better attained in Scotland and Ireland by the simple action of competition, which swept away numerous small banks, and practically confined the business of issuing notes to a few large ones long before the Acts of 1845 prohibited the establishment of any new ones. There is no reason why the government should not entrust its money to the keeping of a bank and make certain conditions to ensure that the latter shall be able to fulfil its engagements. The practice of the United States Government for more than thirty years has been to keep its own cash in the Treasury, and not to employ a bank at all. The effects of this policy are that a much larger reserve of gold has to be maintained to meet the expenses of the government than would be necessary if it were kept by a bank which could lend out with one hand what it received with the other; and that the government is constantly exposed to the suspicion of making an improper use of its opportunities of speculating in the money market. By employing a bank, a

government avoids both these disadvantages, and also confers some benefit upon those persons to whom it has to pay money, as payments are likely to be more punctually and conveniently made by a bank than by a State department; but all these advantages may be quite as well obtained without conferring any privileges on an institution which already receives a substantial benefit by acquiring so valuable a customer as the government is pretty sure to be.

Mill did not go beyond the truth when he said that for a long time the English Government made safe banking a punishable offence. In order to protect the Bank of England from unpleasant competition, it was enacted that no bank which had more than six partners should be allowed to carry on business in England. The business of banking was thus confined to the Bank of England and a host of private firms; and the repeated failures of the latter were adduced as reasons for further legislation. Such is the manner in which legislatures always proceed, first providing some expedient for curing an evil, and, when they find that their remedy produces no effect, trying a new one, without suspecting that it is their own interference which is likely to aggravate the evil. In Scotland and Ireland, where joint-stock banks have long been permitted to be established, they have almost entirely engrossed the business, and during the last fifty years when they have been allowed to exist in England, they have been in like manner swallowing up, or otherwise putting an end to, private banks, and giving promise of eventually monopolising the trade. In 1834 they were first allowed to be established in London, and the foundation of the London and Westminster Bank in that year marks the commencement of a competition which has proved extremely formidable to the private banks, and is not to be despised by the Bank of England itself. In both these quarters, accordingly, the intruder was viewed with no friendly eye, and the steps which were taken to thwart its growth were characterised by equal meanness. The private bankers refused to admit joint-stock banks to the Clearing House, and persisted in doing so until 1854, thus causing considerable inconvenience to their rivals without any advantage to themselves. On the other hand, the Bank of England refused to open a drawing account with the London and Westminster Bank until 1842. The effect of both these courses was the same, viz.: to compel the new bank to keep a larger reserve; but in spite of this persecution the new bank grew and flourished, and is now one of the wealthiest in London. Its history has been related with a pardonable pride by its first manager, Mr. Gilbart, in his "Practical Treatise on Banking." Other joint-stock banks have been successively established, and their published balance-sheets show that their business is constantly increasing. That of the

private banks, on the other hand, is believed to be stationary, if not actually diminishing, and no new one has been established for many years. The reason why the joint stock principle has proved so successful in this instance is obviously that it affords a better guarantee to the public than a few individuals can possibly do. Wherever joint-stock companies are formed they can easily command a larger capital than private firms; but this does not, in all trades, give them a decided advantage. In railways the advantage is so great that it scarcely ever happens that one is owned by a single individual, and, although it is not so overwhelming in the case of banking and insurance, it is still very great. In both these trades the public have to entrust their money to others in the hope of receiving it back at a future time, and it is, therefore, essential that they should have good grounds for this confidence. A large company secures this, partly by raising a large sum to begin with, and partly by including a large number of shareholders, who may be called on to contribute further sums if the company should suspend payment. The collective wealth of the shareholders is likely to be greater than that of the partners in any private firm, and even if (as under the present system of limited liability) they are only bound to contribute a definite sum, this amount is always large, and is always known to the public, who have thus a tolerable guarantee that they will obtain payment of their debts. It is accordingly in both these trades that the competition of joint-stock companies has been most successful in driving out private firms, although many of the latter are still able to hold their ground. How great is the security which they afford to the public may be judged from the fact that during a hundred and fifty years no depositor has ever lost anything by the failure of a Scotch joint-stock bank. The shareholders have had to bear considerable losses, and no doubt many of them have been ruined, but the main object of the institutions, viz.: to provide safe places in which to deposit money, has been completely attained. Mr. Bagehot considers that joint-stock banks have a great advantage in their constitution, which provides that the more responsible work shall be done by a permanent official, the manager, who receives a high salary, and is merely supervised by the directors, who have a less intimate knowledge of the business. This may be so; but there is no reason why private firms should not secure equally competent managers of the same class, if the public would place equal confidence in them. He says that no one but a very rich man can start a bank, and that no very rich one will start one; but though this may be true enough, it only half accounts for the gradual decline of private ones, and the real cause must be, as I have said, that large companies can offer a better guarantee to the public. As, therefore,

this is the safest method of banking, and as it was formerly prohibited, there is no exaggeration in the statement that safe banking was formerly a punishable offence.

The impediments which have been put in the way of joint-stock banking have had other inconveniences besides that of forcing the people to confide their money to untrustworthy hands. They have compelled many persons to do without banking altogether, as we may see by comparing the proportion of banks to the population in the three kingdoms. In England there is one banking office for every 13,000 of the population, while in Scotland there is one for every 4,000, or about three times as many in proportion. It is true that in Ireland the proportion is slightly smaller than in England, but even this must be considered as relatively larger when we take into account the much poorer and more backward condition of Ireland. By thus starving as it were the monied classes of England, the Government has compelled them to make a much larger use of coin, and to undergo more inconvenience on all those numerous occasions when cash is required. The joint-stock banks have introduced into London the practice of allowing interest on small deposits, and have thus conferred a great benefit upon many persons who had saved money which they could not invest. By preventing the establishment of these companies the government inflicted an injury upon these prudent persons which it has but tardily and imperfectly repaired by the establishment of the post office savings banks. In Scotland the system of joint-stock banking grew up gradually, while in England it started into life on the repeal of the prohibitory laws. When they were first introduced into this part of the island there was, of course, a great difficulty in obtaining a sufficient number of capable managers, the business being a new one, while Scotland could not furnish as many as were required. The failure of some of the first which were established was due to this difficulty, and, as usually happens, though this was owing to the interference of the government it was made use of as a ground for advocating further interference. Though the London business of the Bank of England has not suffered any diminution since it was exposed to the competition of other companies, its country branches have found more difficulty in holding their ground, and three of them have been actually closed. These were situated at Exeter, Gloucester, and Norwich, and their abandonment indicates that the Bank of England is not able to modify its procedure so as to meet the requirements of an agricultural centre, although this has been easily accomplished by other joint-stock banks. The gradual reduction in the number of private banks has not been entirely owing to their failure, but some have been wound up on the death of a partner,

while others have been amalgamated with other private banks, and others have been converted into branches of joint-stock banks. How great has been the reduction from all these causes combined may be judged from two facts. In 1844 there were 204 private banks which issued notes, while 30 years later there were only 120. In 1810 there were 40 private banks admitted to the London Clearing House, while 60 years later there were only 11. Of course there have been many failures of joint-stock banks, and when these have occurred they have produced distress as much exceeding that caused by the failure of a private firm as the wealth of a company exceeds that of a firm. We cannot yet expect, and perhaps can never expect, that the management of all banks will become so good that failures will never occur, but if such a consummation is ever attained it will be by means of companies, and not by private firms.

If bankers had never issued notes it is possible that they would have been allowed to carry on their business in peace without interference from the State; but the issuing of paper money seems to be an usurpation of the prerogative of the Sovereign, and thus to call for some control on his part.

The reason why the Government usually monopolises the coining of metallic money is, that such a course is thought to be the best for protecting its subjects against fraud. If no individuals had ever issued coin intentionally made of less than their alleged fineness, there would have been no occasion for the Government to meddle in the matter, and even after such frauds had been practised the Government might have limited itself to punishing forgers when detected. It has, however, been generally thought most convenient for the Government to issue coins of which it guarantees the weight and fineness; and as the practice is tolerably convenient, and is free from the abuses by which it was formerly disgraced, it has met with general approval. But, as so frequently happens, the slightest transgression on the part of the State beyond the limits prescribed to its action by the duty of protecting person and property is made a pretext for further transgressions, and because Government controls the issue of coin, people argue that it ought to control the issue of notes. Some go so far as to recommend that the State alone should issue notes, and that all private issues should be prohibited by law. Others consider that private issues should be allowed, but only on condition that securities for the full amount should be deposited with a State department, and such a system has been, to some extent, adopted in the United States. The argument that because notes are called money therefore the State ought to regulate their issue, hardly admits of serious discussion. In both cases the

State is equally bound to protect its subjects against fraud, and to punish the forgers whether of coin or of notes; but the argument assumes, first, that the monopoly of coining is the best means of preventing fraud, and, secondly, that if this were so a similar course would also be the best in regard to notes. Neither of these assumptions can be justified; and even if, by certain regulations, a Government could secure that all notes should be cashed when presented, it would not thereby secure its subjects from losing their money, but merely from losing it in a particular manner. We might as well try to stop the Ganges by closing up one of its mouths as to save people from pecuniary loss by preventing them from using one kind of paper-currency. The State might, indeed, totally suppress the issue of notes, but this would not prevent its subjects from losing money through the failure of banks, nor will it compel them to forego the use of paper in large payments. Many persons, however, and even some Economists, seem to consider that the loss occasioned by the dishonouring of a note is more serious than one of equal amount occasioned in any other way. The reasons for this opinion are difficult to conjecture. Whether a note or a cheque is dishonoured, the holder is disappointed in finding that what he had regarded as money turns out to be worthless, and, if the amount is the same, the annoyance is equal in both cases. Those who deposit money in a bank, experience the same shock and the same loss when it stops payment as those who accept its notes, and it is difficult to see in what respect the position of one class of creditors is worse than that of the other. It is, indeed, said that people can choose whether they will or will not deposit money in a bank, and whether they will accept cheques, but that they have practically no choice about receiving notes. There is some truth in this statement; but the reason why notes command such general confidence that they can hardly be refused in payment is, that they are found to be practically as good as coin, and it is rather unreasonable to make their very safety a ground for interfering in order to see that they shall be safe. This argument is especially made use of in the case of small notes which circulate chiefly amongst the poor, who are supposed more than other classes to need the protection of the Government. In England these notes have been long prohibited, and other countries which possess them now seem inclined to follow the example. The Italian Government, which sees no great evil in the depreciation of its own paper to the extent of 15 per cent., is so much alarmed by the prospect of the possible loss which its subjects may suffer from accepting private bank notes of less than a franc in value, that it is taking steps to prevent such from being issued in future. The German Government is, in like manner, endeavouring to fix the same

minimum as has been adopted in England, although its subjects have long been accustomed to use notes in most of the cases in which coin or cheques would be used in England. Yet whatever advantage can be obtained from the suppression of small notes could just as well, though perhaps more tardily, be obtained by leaving things to take their own course. If they are inconvenient the public will not ask for them, and they will cease to be issued; while, if they are unsafe, the banks which issue them will cease to exist. By prohibiting or limiting the issue of notes, the State in some measure contributes to render banks unsafe, for the power of issue enables a bank to carry on its business in a more economical manner, and the mere fact that its notes are widely known in some measure preserves it from a run. In fact, the tendency of all legislation on the subject of notes is to sacrifice the interests of the depositors to those of the note-holders, and there are some people to whom such a course appears justifiable. Banks, it is said, are imprudently managed; therefore, when one fails, its notes should be paid in full before the claims of its depositors are dealt with. It would not be more arbitrary to say that because banks are imprudently managed, therefore the depositors should be paid in full before the claims of the note-holders are dealt with. Both classes are creditors whom the bank is bound to satisfy, and who are equally victimised by its failure. That the note-holder should receive more sympathy than the depositor is perhaps merely owing to the fact that notes are of older date than banking accounts, and have borne the name of money before cheques began to be used. Whether as regards the rich or the poor, no substantial case has ever been made out for protecting them from the consequences which must inevitably follow from entrusting money to insolvent persons. Let the State do what it will, it cannot prevent its subjects from incurring debts, nor one bankruptcy from bringing others in its train, and the consequent privations will be quite as painful, whatever be the form in which the debts were expressed.

It has often been supposed that the indiscriminate issue of notes would produce other inconveniences than such as are implied in the failure of banks. It has been thought, for instance, that an excessive issue causes a general rise of prices, which, in its turn, produces a large exportation of specie, and brings on a commercial crisis. This theory has, however, been sufficiently discussed in the last chapter, and it is unnecessary to repeat what was there said on the subject. It has been thought that the power of issue renders bankers more likely to give credit to undeserving persons. But as notes are payable on demand, a banker is not quite so prone to incur a risk by lending them as by lending his name on a bill for which payment cannot be demanded for three

months or more. Before the bill becomes due he may expect to provide himself with cash to meet it, but the notes may, for aught he knows, be presented the next day. Cheques, like notes, are payable on demand, and the prohibition of notes does not prevent bankers from giving credit to unworthy persons, nor prevent these from obtaining the goods which they want with as much ease as if coin had been lent to them. Of all the modes in which bankers contrive to ruin themselves, issuing notes is the least likely to succeed, and is the one which has been most jealously watched over by the State.

Several Acts have, from time to time, been passed to regulate the issue of notes in the different parts of the United Kingdom, and the most celebrated of these, and that which, as far as England is concerned, still regulates our monetary system, is the Bank Act which was passed at the instance of Sir Robert Peel in 1844. When it was first proposed, the most extravagant expectations were entertained respecting the good results which it would produce, and whatever may have been the opinion of its more clear-headed advocates it must have derived no slight support from the belief that it would save the country from the recurrence of commercial crises. We, who live when time has been allowed to test the working of the Act, and who have witnessed three commercial crises since it was passed, cannot ascribe any such salutary effect to it; and its defenders must now content themselves with more modest claims. As, moreover, on each of these three occasions the Act has been virtually suspended, if not actually violated, its more uncompromising opponents naturally maintain that it is the cause of crises instead of being a remedy, or even a palliative, for them. The controversy has been long and fierce, naturally obtaining a greater share of public attention at the time of a crisis, and sinking into comparative neglect when the public no longer realise the intense suffering which such a calamity entails; but the opponents of the Act, although they have often raised their voices in Parliament, have never been strong enough to obtain its repeal or material alteration. Of late years the rooms of the Statistical Society have been the principal arena in which the conflict has been carried on, and the Journal teems with papers in which the question is discussed from every point of view. In 1871, we find a vigorous attack on the Act in a paper by Mr. Patterson, which is followed, in 1872, by a defence of the Act by Mr. Hammond Chubb, and some suggestions for its improvement by Mr. Seyd; while, in 1873, there is an elaborate and impartial review of the whole subject by Mr. Palgrave. All these gentlemen have, I believe, some practical acquaintance with the subject of which they treat, and, as each of them regards it from a different standpoint, a comparison of the instances in which they agree and in

which they differ cannot fail to be instructive. The Act may be divided into two portions; that which relates to the Bank of England, and that which relates to the country banks; and it is to the former that I shall for the present confine my attention. Although I have already mentioned it several times, I must here repeat that the Act limits the amount of notes which the Bank may issue in excess of the amount of coin or bullion in its coffers to 350,000,000f. There is no absolute limit to the amount of notes which the Bank may issue, but a shifting limit is fixed by the amount of gold and silver of which the Bank is at any moment possessed. As a general rule, the actual amount of notes in circulation is very considerably below the maximum limit prescribed by law, and it is only at the height of a crisis that the limit is attained, or very nearly approached. On such occasions the near approximation to the full amount is not so much owing to the increase of the notes in circulation as the diminution of the stock of gold, great part of which is withdrawn from the Bank by depositors for foreign exportation or other purposes. To ensure the due performance of the law by the Directors of the Bank, they are required to keep separate accounts for the issue-department and the banking-department, and to publish every week the amount of notes issued, and of bullion and securities held in each department. The returns of the issue-department are made up by adding to the actual stock of bullion the total amount which may be issued against securities (which has now been increased from 350,000,000f. to 375,000,000f.) and setting down the total as the amount of notes issued. This amount, however, is not the same as that of the notes in the hands of the public, and the difference between the two appears in the accounts of the banking-department as the notes which it holds in reserve. The banking-department holds some coin in reserve, but if it desires to replenish its stock from the larger resources of the issue-department it can only do so by diminishing to the same extent its reserve of notes. It is obliged, as it were, to present notes to the issue-department and get them cashed, and, by so doing, diminishes the balance standing to its credit; just as one of the customers of the bank would do by cashing a cheque. One of the objects which the supporters of the Act sought to obtain was that of compelling the Bank to reduce the amount of notes in circulation in exactly the same proportion as its stock of gold was at any time diminished. This object has not been obtained, for the returns of the Bank show that the amount of notes in circulation frequently increases at the same time that coin is withdrawn. This was pointed out soon after the Act was passed, and it is curious to see how Colonel Torrens strove to conceal its failure in this respect. In his defence of the Act he boldly maintains that the circulation has always risen and fallen

simultaneously with the gold, and refers to the returns of the issue-department as establishing this proposition. Of course, what are spoken of in the return as notes issued rise and fall with the amount of gold, for their amount is made up by adding a fixed sum to the amount of the gold. But these are not notes actually issued, but those which may possibly be issued, and they cannot be considered in circulation for they do not circulate, but remain in the Bank. When Colonel Torrens recommended that the amount of the circulation should be made to depend on the amount of gold, he meant, of course, the real circulation in the hands of the public, for which alone the Bank needs to provide the means of payment, but such was his unwillingness to own himself in the wrong that he would rather save his theory by a quibble than acknowledge that the facts were opposed to it. The Act, to some extent, divides the Bank into two separate institutions, and Torrens availed himself of this fact gravely to maintain that, as the banking-department was separate from the issue-department, the notes which it held were quite as much part of the circulation as the reserve of any London bank. It is natural that the circulation should increase at the same time that the reserve of coin is diminished, for both effects are due to the same cause, viz., the need which the public have of more money with which to make payments at certain seasons of the year when notes are required for the larger payments, and coin for the smaller ones. The ground which is now generally taken by the defenders of the Act is, that it secures the convertibility of the notes of the Bank of England. Mr. Hammond Chubb, for instance, says :—"If it be conceded that it has secured the convertibility of bank notes, and I think it may be shown that it has done no more, even if it has done so much, then it has been successful. If it be insisted that in effecting this, evils have been brought about, these evils must not be attributed to the operation of the Act, but must be regarded as the accompaniments of the use of convertible bank notes with a regulated issue. And if these evils are held to be intolerable, there is nothing to be done but to revert to the use of notes which may or may not be convertible, and be issued in regard to supposed local requirements, and not with reference to international dealings. * * * Amidst all the depreciation which showed itself on every side and in every shape, when the only result that could happen did come about, the bank note maintained its promise to the letter." * The latter of these passages refers to the crisis of 1866, and implies that, because the convertibility of the note was even then maintained, this advantage was secured by the operation of the Act. It

* Journal of the Statistical Society, vol. 35, pp. 173-182.

is quite true that the notes have been convertible ever since the Act was passed, but it is equally true that the earth has continued to rotate on its axis ever since that event ; and it might, with equal show of reason, be maintained that the continual recurrence of day and night was owing to the wisdom of Sir Robert Peel. Ever since the Act of 1819, which ordered the resumption of specie payments, came into operation, the promise which every note bears on its face has been literally fulfilled. During the period of 20 years which preceded the passing of that measure the promise was frequently broken, but only because the law required that it should not be kept. Thus the Act of 1819 marks the division between the periods of convertibility and inconvertibility, while that of 1844 is simply an undistinguished year in a long period of convertibility. We are not, therefore, obliged to suppose that the Act of 1844 has been the cause of convertibility, or that we must choose between inconvertibility and the evils which may be found to be inseparable from the maintenance of the Act. We have only to return to the state of things which existed between 1819 and 1844, and we should be free from both of them. It is frequently said that the Act of 1844 is complementary to that of 1819, for, while the earlier Act ordained that the Bank should cash its notes when presented, the later one took steps to provide that a sufficient reserve should be kept for this purpose. It is, however, on this point that the essence of the controversy turns ; the earlier Act contented itself with requiring the Bank to keep its engagements, and left the directors to use their discretion in providing for so necessary an object as the maintenance of a reserve. The later one curtailed their discretion, and, to some extent, dictated the amount of the reserve which they should keep, and the purpose to which they should apply it. As usually happens when a legislative remedy is proposed for any social disease, its advocates declare, and often believe, that their opponents are indifferent to the cure of the evil because they oppose the adoption of the particular remedy. In this case the supporters of the Act seem often to suppose that all who are opposed to it are also opposed to convertibility, although, in fact, this is only true of a small, and by no means influential, section of them. It is true that the Act does compel the Bank to keep a larger reserve than it would otherwise do, and so far increases the chance which every note-holder has of getting his notes cashed ; but, in order to obtain this object, a course is adopted which increases the danger of the bank stopping payment. In all commercial crises a remarkable feature has been the extreme anxiety of bankers and merchants to obtain an increased quantity of Bank of England notes, although the reserve of gold is known to be at its lowest, and the chance of the notes being cashed might seem to be extremely small. In 1825,

for instance, the reserve was almost exhausted, and yet the cry on all sides was for more notes, which were accordingly issued by the Bank in the most liberal manner, both as regards their amount, and the rules respecting the securities against which they were granted. It was on this occasion that Huskisson made the memorable remark that "We were within twenty-four hours of Barter," implying that, as the country had been drained of gold and the Bank was within an ace of stopping payment, there would soon be neither coin nor notes to perform the functions of a medium of exchange. In 1839, again, the reserve was reduced to a very low figure without impairing the confidence of the public in the solidity of the institution. On this occasion the Bank righted itself by borrowing a large amount of gold from some Paris bankers; a proceeding which has often been regarded as a national humiliation by writers whose patriotism is more sensitive than any which I can lay claim to; and it was partly in order to save the country from a similar disgrace that the Act of 1844 was passed. It certainly has had the effect of maintaining a large stock of gold in the Bank, but only under conditions which have rendered it practically useless. In former crises the whole stock was nearly exhausted, but since 1844 the withdrawal has only continued until the stock of the banking department was exhausted. At such times the crisis has reached its height, for the whole reserve of the banking-department being exhausted, the Bank would be unable to meet its engagements towards its depositors if they should require to withdraw any large amount of their deposits. Were it not for the Act, the Bank might use the gold which is in the issue-department, but this cannot be allowed to depart except in exchange for notes; and at such times there is always a demand for an increased quantity of notes, partly from bankers who desire to strengthen their reserves as a precaution against a run, and partly from other persons who are afraid that bills and cheques will be refused amid the general distrust which prevails, and who wish to provide themselves with paper which no one will hesitate to receive. Were it not for the Act, the Bank might issue any quantity of notes, but it cannot do so unless the stock of gold is increased; while at such times there is usually a drain of gold for exportation, and the same reason which makes people keep a larger stock of notes induces them to keep coin also. If it had been known that the Act would be strictly enforced, it is highly probable that the Bank would have been compelled to stop payment in 1847, 1857, and 1866, and if this had happened the note-holders would have found themselves in quite as awkward a predicament as the depositors. As on none of these occasions was there a sufficient stock of gold to cash all the notes, it would have been

impossible to satisfy the claims of all the holders, and it may be doubted whether they would have been allowed precedence over the depositors. The Act says that gold may not be withdrawn except in exchange for notes, but it does not contemplate the case of the Bank suspending payment, and does not provide (as is often erroneously supposed) that the Government shall redeem any portion of the notes, or that its assets shall be dealt with in any other way than is usual with companies which have failed. To prevent such a catastrophe the ministry of the day have always interfered by writing a letter to the Directors of the Bank, recommending them to be liberal in their discounts, and pledging themselves to do their utmost to procure from Parliament an Act of Indemnity in case such a course should lead to the increase of the circulation beyond the legal limit. The publication of these letters has always produced a good effect in calming people's minds, and a mere knowledge that more notes were forthcoming if required has been sufficient to reduce the immediate demand for them. It was only in 1857 that the Act was actually violated, but in 1866 it was only saved by the Bank of England taking the unusual course of requesting other banks to send back all its notes which they could possibly spare. A similar system prevails in Austria, where the privileged bank is only allowed to issue notes to the extent of 500,000,000f. in excess of the bullion in its vaults, and during the crisis of 1873 the Austrian Government suspended the operation of this law. During the American crisis of the same year the Executive took a similar course by allowing the infraction of the law which requires the banks to keep a reserve equal to one-fourth of their liabilities. In all these countries, therefore, it is found by experience that a rigid rule as to the amount of reserve cannot be enforced, but must be relaxed at the very time when its operation is most sensibly felt. Nor is this strange, for the very object of a reserve is to be used on extraordinary emergencies, and if it cannot be used at such times it might as well not exist. Here may be seen the effect of State interference: if banks were allowed to manage their own affairs they might keep too small a reserve, and they might be guided by foolish rules in issuing their notes, but they would never lock up their own reserve in such a way as to be inaccessible to themselves when it was wanted. The rule which now guides the issues of the Bank of England was adopted by the Directors of their own accord before the Act was passed, but if it had not received the force of law they would never have adhered to it at the time of a crisis. The repeated interference of the Government, and the certainty that similar steps will again be taken if required, have done much to mitigate the effects of the Act; but the regulation of such a matter cannot be so safely intrusted to statesmen as

to bankers, and it cannot be rationally contended that an Act which is virtually suspended at the only time when it produces any important effect can confer a great benefit on the community.

Some persons are so much impressed with the evil consequences which would result from the dishonouring of bank notes, that they find fault with the Act for not going far enough, and propose that the note circulation should not be allowed to exceed the amount of bullion held in reserve; Mr. Seyd does not go so far as this, but in the paper already referred to, proposes to prohibit what he calls the "Fiduciary Issues," *i.e.*, the notes issued against securities, except when the rate of discount is high: the only apparent reason which he puts forward is, that such a course would furnish an infallible security to the holders; but as the confidence of the public in the notes is already perfect, it does not appear that anything would be gained by the change. This confidence was quite as great before the passing of the Act as it has been since, and the law which in 1833 made the notes legal tender, merely gave legal sanction to what had long been the universal practice. Many will remember the pride with which Burke in his "Reflections on the French Revolution," contrasts the general acceptance of the Bank of England note with the depreciation of the assignats, and says of the former that it is all-powerful on 'Change, because it is powerless in Westminster Hall. If Mr. Seyd's proposal were adopted, it would be necessary for the Bank to increase its reserve, for it would still require as much as at present to meet demands on the banking-department, and this addition would represent a large expenditure of English labour in procuring the gold, which would only be compensated by an imaginary increase in what is already complete, viz., our confidence in the solvency of the Bank. Mr. Seyd himself tells us that, "The great position of the Bank, its high credit, its large deposits without interest, and its general influence and monetary power, are due simply to its enormous capital and rest, and to the prudent and superior management of the institution under all circumstances."* The popular belief that the Bank cannot fail is not ill-founded, although the reason given for it, that the Government is bound to pay its debts, is founded on a mistaken one. Its capital of 360,000,000f., which is four times as large as that of the Bank of France, and far exceeds that of any other bank in the world, and its "Rests," (or undivided profits), which have for years been maintained at 75,000,000f. constitute an enormous fund which the most reckless directors would require a long period to squander, while the high position of the Bank has always enabled it to procure the services of the ablest and most

* Journal of Statistical Society, vol. 35, p. 504.

honourable men whom the City of London can produce. The function of issuing notes against bullion is one which might be quite as well performed by a government department, as, indeed, others have proposed that it should be, and it constitutes (or, until recently constituted) the sole business of the Bank of Hamburgh. But the experience of Hamburgh in 1857 shews that such a system affords no guarantee against speculation or commercial crises, as, under Mr. Seyd's system, the amount of the fiduciary issues would be allowed to increase as the rate of discount rose, it might be possible to weather a commercial crisis without suspending the law; but this is the only advantage which would be gained, and although his scale has been framed after a very careful study of the last accounts of the Bank, it would be dangerous to fetter the discretion of the directors by holding them down to rules which may not be found suitable to the vicissitudes of the future.

Among the more extreme opponents of the Act, who go so far as to maintain that it is the cause of commercial crises, is Mr. Patterson, who says, "England is the peculiar seat of monetary crises, just as Egypt is of the plague, and India of the cholera. These monetary plagues are the bane and opprobrium of our country. Our monetary system, I venture to say, is a disgrace to our civilization, and I hope the day is not far distant when our trading and manufacturing classes, nay, our whole community, will be relieved from the terrible periodical convulsions which owe their peculiar severity to the defects of a banking system which, in this latter half of the nineteenth century, is still based upon the vicious and antiquated principles of monopoly and restriction."* But it has been already pointed out that commercial crises are not peculiar to England, and have recently occurred in Austria and the United States, though it must be admitted that the laws of those countries are similar to those of England in regard to the issue of notes. But on wider grounds it may be safely maintained that crises are not the result of monetary legislation, but of impediments to production. It is not the want of money, but of commodities which inflicts so much suffering on our trading and manufacturing classes; and the freest issue of notes could not save them from the sufferings consequent on an Irish Famine, or a Continental War. No system of banking can ensure the prudent management of all houses of business, and the failure of such a house as Overend and Gurney must, whenever it occurs, bring many others in its train. As there are several banks which have contrived to hold their ground for nearly two centuries, it cannot be maintained that our monetary legislation creates any obstacles which may not be over-

* Journal of Statistical Society, vol. 34, p. 352.

come by skill and prudence. Mr. Bonamy Price seems inclined to go to the other extreme, and while justly maintaining that crises are not produced by the Bank Act, he seems to me to go too far in contending that the amount of gold held in reserve by the Bank of England neither has, nor ought to have, any influence on the money market. The former of these propositions he supports by reference to the Bank returns, which show that there is no invariable connection between the amount of the reserve and the rate of discount. The latter he bases on his general argument that what is really lent and borrowed is not money, but commodities; and he regards as a popular delusion the belief that the facility of obtaining loans depends on the bulk of a heap of metal in Threadneedle-street. It is perfectly true that the directors, when they fix the rate of discount, have to take other things into consideration besides the amount of their reserve; and that a table which merely gave the amount of reserve, and the rate of discount which prevailed at the same time throughout a series of years, would disclose no apparent connection between them. But it does not follow that the reserve is not one of the elements to be taken into consideration, and it is certain that its amount is always extremely small at the time of a crisis; and it can scarcely be maintained that the Directors can grant enormous loans without considering what means they have of meeting their own engagements. That the diminution of the reserve excites unnecessary alarm may be admitted, although Mr. Price seems to have exaggerated the extent to which this actually happens. In two letters which he addressed to the "Times" in November, 1873, he described the City as having gone mad in consequence of a diminution in the reserve, and instanced the high rate of discount and increased demand for accommodation which then prevailed as proofs of the existence of a panic in the City. But Mr. Crump, who is doubtless better acquainted with the actual facts of the case, and who has examined these letters at some length,* assures us that the panic was, on this occasion, confined to a few merchants of inferior standing, in whose case it could not be deemed unreasonable, as they were sorely in need of advances. But when a veritable crisis occurs, the power of the Bank to relieve it is, for a time at least, curtailed by the restriction which prevents it from issuing more notes. That a large amount of gold should be locked up at such a time is an evil of less moment, for if it were not for the Act there would probably be hardly any left, but to prevent the Bank from issuing notes to all such as are willing to accept them, is to impose a hardship

* Theory of Stock Exchange Speculation. By Arthur Crump. Longman, 1874. Chap. 15.

on the banking and commercial community which is not compensated by an advantage to any other class. In discussions on this subject a good deal is said about the function of banks, one party contending that their function is to make advances, while another party maintains that it consists in taking care of what is entrusted to them by depositors. It is, however, unnecessary to enter into this question here, for it is certain that banks do in fact make advances, and therefore the commercial community may reasonably expect them to continue to do so. If it were proposed that the Bank of England should be compelled to make advances at the time of a crisis, there would be some reason in the plea that the Bank exists for the benefit of its proprietors and depositors, and not for that of intending borrowers; but the opponents of the Act merely ask that the Bank should be allowed to conduct its business in whatever way is most convenient to itself. To make large advances during a crisis is a policy which is quite as profitable to the Bank as it is beneficial to the borrowers, and it may be doubted whether a refusal to do so would not compel the Bank itself to suspend payment. Such a refusal would greatly augment the number of failures, and, as several banks would probably fail, it is quite possible that, as Mr. Bagehot suggests, the Clearing House system would be given up, and the banks would then withdraw their balances from the Bank of England; and so large a withdrawal would be more than the latter could bear, and would compel it to suspend payment. A free issue of notes enables the Bank to make advances almost unlimited in amount; and though the interference of the Government has always come in time to save the Bank, there must always be many firms who suffer much from the delay of even a few days on the part of the Government in resolving on so important a step. In countries where little is known about the monetary system of England, the suspension of the Bank Act is regarded as being identical with the suspension of cash payments, which it in fact prevents; and the alarm thus occasioned must have some effect in inducing foreigners to withdraw deposits from England just at the time when every inducement ought to be held out to retain them. Unreasonable as the mistake is, it yet illustrates the evil consequences which result from passing a law which is only harmless so long as it is in operation, and must be suspended whenever it begins to act.

It is remarkable that the opponents and supporters of the Act, though they agree in nothing else, agree in condemning the provisions which relate to country banks. These latter are not allowed like the Bank of England to increase their issues if they will consent to increase their reserve in proportion, nor are they required to keep any reserve at all; but they are simply forbidden to issue a single note in excess of the

amount which they used to do shortly before the passing of the Act. The authors of the measure no doubt expected that it would gradually lead to the extinction of the country issues, as no new bank of issue was permitted to be established; but although a great reduction has since taken place, it has by no means realised their expectation, and the Act itself has been the means of securing a longer lease of life to the smaller and weaker of the country banks. It provides that, if two issuing banks are amalgamated, the joint-bank may only maintain a circulation equal to those of the two when separate, on condition that the number of partners is not more than six after the amalgamation. Thus this provision, while it permits the amalgamation of small private banks, prevents large joint-stock banks from uniting with one another or from absorbing private banks. As the establishment of joint-stock banks was prohibited prior to 1826, the business of banking in England was shared among a large number of private banks, and the Act of 1844 came before the joint-stock banks had had sufficient time to absorb them, while it furnished an additional obstacle to amalgamation; the privilege of issuing notes, even to a small amount, being too valuable to be lightly parted with. We find, accordingly, that as compared with Scotland and Ireland, where joint-stock banks have long been tolerated, the number of issuers is truly enormous, being (in 1872) one hundred and seventy-seven as against eleven in Scotland and six in Ireland. This multiplicity of issuers has always been justly regarded as the great defect of the English system, as there is a greater risk of failure with many poor banks than with a few rich ones; but the authors of the Act of 1844 felt themselves obliged to respect vested interests, and therefore allowed all those who had already obtained a circulation for their notes to keep what they had fairly earned. But although we may understand why this course was adopted, and though it could not have been avoided without a large expenditure by way of compensation, there is no valid reason why any distinction should be made between banks founded before and after a particular year, or why the amount of notes which sufficed for 1844 should be made to suffice for all succeeding years. No provision is contained in the Act to protect either the note-holders or the other creditors of country banks, but it simply provides that the amount lost through the dishonouring of notes shall not be greater than it would have been in case the bank which issued them had failed in 1844. They may waste their own and their depositors' money in any way they please, but they may not earn the profit which might be fairly derived from the public confidence reposed in them when it is shown in a disposition to accept an increased number of their notes. The restrictions imposed on joint-stock banks have been even more galling than those to which the private ones are subjected, but

they contrive, nevertheless, not merely to hold their own ground, but greatly to extend their operations: one of them, the National and Provincial, has forfeited its right of issue by establishing an office in London, while the Scotch and Irish banks have been allowed to do business in London without incurring a similar penalty. While its operations were confined to the country its circulation amounted to about 10,000,000f., and I have been assured by one of the Directors that the loss which it suffered was as great as would have been caused by the withdrawal of deposits to the amount of 25,000,000f. While it was allowed the right of issue a considerable part of its reserve could safely consist of its own notes, which cost nothing until they were issued, but now Bank of England notes must be retained and, of course, paid for. Country bankers complain that the licence duty on branch offices is at present so high as to act as a great impediment to the establishment of new branches. All bankers are required to pay for stamps on the notes and bills which they issue, and by way of composition for the increased circulation which every branch is supposed to obtain they are required to pay 750f. a year for every branch office. Small as this amount appears, it is said to be more than sufficient to swallow up the profits of many branches which might otherwise be established in small towns. As, however, the tax is imposed for the sake of the revenue derivable from it, the discussion of its merits belongs rather to the subject of taxation than to that of free banking. It is sufficient to observe that the safest system of banking is that of a few banks with many branches, and that if a sufficient revenue can be obtained by less objectionable means it would be well to abolish or reduce a tax which at present defeats its own end by preventing the use of the thing on which it is imposed.

Country bankers have been so long accustomed to submit to State regulations that they almost seem to have lost the wish for independence, and to regard some kind of regulation as inevitable. On June 15th, 1874, some of them presented a memorial to the Chancellor of the Exchequer, in which they prayed for the removal of a grievance; but this was only an invasion of their field by the Scotch banks, which are allowed to issue notes in England, and one of which has established a branch in Cumberland, while more than one have done so in London. The Scotch banks being allowed, like the Bank of England, to issue as many notes as they please, on condition of proportionally increasing their reserves of gold, are able to avail themselves to the full of the powers allowed them of issuing notes unsecured by gold. The English banks, on the other hand, not being allowed to exceed a certain limit, are obliged, in order to keep on the safe side, to keep much below it, and are practically restricted to three-fourths of their authorised issues.

The deputation simply asked that the Scotch banks, if allowed to issue notes in England, should be subjected to the same conditions as their English competitors, and the memorial concluded with the words—"Your memorialists, therefore, respectfully pray that this important subject may have your early attention, and that you and the other members of the Government may, by immediate legislation, uphold in thorough integrity the spirit of the Bank Act of 1844." Thus they speak of the Act as if it were something which it concerned them to uphold, not as a burden imposed upon them without any regard to their interests or wishes. Mr. Dun, the manager of Pars Banking Company, who was one of the deputation, published his views on the subject in the form of a letter to the Chancellor of the Exchequer, and if sound sense and moderation can procure a respectful hearing for his arguments they are certainly entitled to it. The gist of his recommendations is contained in the following passage:—"In order to put the English banks completely on a par with the Scotch, as they now stand, it would be necessary to give to all of them the power of issue. This, however, would be out of the question. There are in England too many small banks, both private and joint-stock, to warrant such a course. The three essential qualifications of a note-circulation are, security, convertibility, and acceptibility. Keeping these three qualifications in view, what I venture to suggest is, that every joint-stock bank in England, having a paid-up capital of not less than (say) £200,000, should receive the power to issue notes to an amount not exceeding (say) one-half of its paid-up capital against the deposit with the State of English Government Securities for an equivalent amount, with a margin of (say) 20 per cent. to cover possible depreciation, on condition of always holding coin or Bank of England notes to the amount of (say) one-third or one-half of its notes in the hands of the public, and under the obligation of always paying its notes in legal tender on demand."* Thus he takes for granted, just as statesmen do, that because multiplicity of issuers is inconvenient therefore it ought to be prohibited, and does not see that competition is sufficient to correct whatever inconvenience or risk the system may involve. If it be admitted that some regulation is necessary, his scheme deserves consideration, and is well calculated to secure the proposed end, viz., security for the payment of notes. Somewhat similar rules are actually enforced in Sweden, of whose banking system an interesting account is furnished by Mr. Palgrave in the paper above referred to, and they have been found to work well, if we may judge from the fact that none

* English Bankers' Grievance, p. 16. By John Dun. Effingham Wilson, 1874.

of the banks subject to them have yet failed, although the system has been in force for about forty years. But whatever merits these or other systems may possess, the general principle remains that the State cannot give increased security to note-holders without proportionately injuring depositors, and that natural selection will establish safe banking by rooting out all the institutions which are badly managed. The success of the Bank of England in monopolising the note-issue of the metropolis affords an instance of the effects which free competition has power to produce. Although joint-stock banks have never been allowed to issue notes in London, the private ones used formerly to do so, but the public showed such a preference for those of the Bank of England that the private bankers ceased to issue them long before they were actually forbidden to do so by the Act of 1844. The London public are now so thoroughly accustomed to the notes of one bank that it would be difficult for any of the large joint-stock banks to obtain a circulation for their notes, which certainly could not be rendered more safe than those now in use. This, however, is no reason why they should not be allowed to make the attempt, and there is no more pernicious assumption than that because people have contrived to do without a thing they should therefore be prevented from using it. The temerity of legislators is nowhere more conspicuous than in their acting as they so often do, on the principle that whatever is suited to one generation must do equally well for all succeeding ones. It is to be hoped that the same spirit which has dictated the throwing open of the East Indian trade to all British subjects, and of the Corn Trade to all foreigners, will finally induce the English Government to throw open the business of note-issuing to all who may wish to engage in it. Let all impediments to amalgamation and to increased issues be done away with, and time will be sufficient to transform our multitude of banks into a few large ones with innumerable branches.

The issues of the Scotch and Irish Banks are now subject to regulations imposed by two Acts passed in 1845, the aim of which was much the same as that of the English Act of the preceding year, but which differed from it in many important respects. Banking having been allowed to develope itself more freely in those countries, the people have become more thoroughly accustomed to it, and the commercial classes have rallied round the banks whenever they have been assailed, and have extorted more favourable terms for them. Although the same principle was introduced into these Acts that the issues of notes not backed by gold should never increase beyond what it had been in 1844, the details were so arranged as to be much more favourable to the Banks than those of the English Act. In the latter the period for which the average

circulation is calculated is the short one of twelve weeks, and any bank which allows its circulation in any period of twelve successive weeks to exceed its authorised limit is subjected to a fine. In Scotland and Ireland the average is struck over a whole year, so that the banks are able to obtain the full benefit of the expansions to which the currency is liable at certain seasons of the year. As, moreover, they are allowed on increasing their reserve, to make an equal increase in their issues, they are never obliged, as English banks have sometimes been, to ask neighbouring banks to allow them to pay off any of their notes which the latter may have in hand. Although it might seem that by requiring them to lock up an equal amount of gold the Government prevents them from profiting by an increase in their issues, this is not the fact, as the notes act as an advertisement of the bank which issues them, and the power of increase enables the banks to supply the wants of an advancing country without compelling the people to resort to the use of gold coin. As the circulation of notes, both in Scotland and Ireland, attains its maximum about November, it is always necessary to remit a large amount of gold from London to fill up the reserves of the banks at that time of the year; and this withdrawal has a perceptible effect on the London money market, and is one reason why the rate of discount is usually highest, and crises usually occur, in the last quarter of the year. This inconvenience is not counterbalanced by any benefit to the holders of Scotch and Irish notes, for the gold is in no way hypothecated for their payment, and when a bank fails the note-holders are not entitled to any precedence over other creditors. As two issuing banks are allowed to amalgamate without forfeiting any portion of their issues, a great obstacle to amalgamation is removed, and partly from this cause, and partly from failures, the number of issuing banks in Scotland has been diminished from 24 to 11 since the Act was passed. There are none which do not issue notes, and these 11 had, in 1872, 801 branches. The experience of Ireland has been somewhat different, for the six banks which were in existence in 1845 still continue, but have not a monopoly of banking as they have of issue, there being six others which do not issue notes. Although the banking systems of Scotland and Ireland are comparatively good, and although a new bank of issue, even if it were permitted, would find great difficulty in obtaining a circulation for its notes, I see no reason why the same liberty should not be allowed to bankers as to other classes in these countries. If no one availed himself of the permission to issue notes, no harm would be done, which is more than can be safely asserted of the present system of prohibition.

CHAPTER VII.—FOREIGN TRADE.

DOMESTIC AND FOREIGN TRADE—EXPORTS AND IMPORTS—FOREIGN EXCHANGES—INTERNATIONAL VALUES—FOREIGN COMPETITION—ADVANTAGE OF FOREIGN TRADE.

THE subject of foreign trade is one which has received a considerable share of attention from Economists, but is, nevertheless, one respecting which some pernicious errors are still prevalent. Although the general motives which prompt the inhabitants of different countries to exchange their products with one another are the same as those which induce fellow-citizens to do so, yet there is a difference between the two cases which renders it convenient to treat them separately. Within the limits of a small country, capital and labour are so readily transferred from place to place, that each branch of industry is confined to the district where it can be carried on with the most advantage, and the different districts supply their wants by exchanging what they can best produce for themselves with what can be produced elsewhere with less labour. But it has been observed (book 3, chap. 1), that these are not the only conditions under which trade can be carried on, and it may be profitably maintained where one party is superior to the other in his capacity for producing the articles which he buys, as well as those which he sells. The mere knowledge that coal can be procured with less labour in England than in France would not be sufficient to induce the French colliers to emigrate *en masse*, although a similar ground would be sufficient to make English miners move from Staffordshire to Durham. Capitalists, too, although frequently willing to embark in foreign undertakings, have to take into consideration other things besides the amount of profit which they will be able to obtain. This difficulty of transferring labour to the field where it can be most advantageously employed, is a new condition which makes an important difference between foreign and domestic trade, and hence a special theory is required to explain the former. Commerce is often carried on between two countries, one of which is better adapted than the other for producing both the articles which it exports, and those which it imports. If it possessed an equal advantage in both respects, it could gain nothing by importing one of the two articles, but if, while possessing a superiority in both cases, it has a greater advantage in one than in the other, it will gain something by confining itself to the

work which it can do best, just as individuals of superior ability find it best to devote themselves to the business in which their ability can be turned to the best account. An American Economist, Mr. Bowen, informs us that Barbadoes is better fitted than New York for the production of breadstuffs, as well as for that of sugar and spices, and that, nevertheless, Barbadoes imports the former from New York, and pays for them by exporting the latter. The mere circumstance that both of these kinds of commodities can be raised with less labour in Barbadoes, does not induce the people of New York to emigrate to that island, though if it were a fertile district in the State of New York, population would be attracted to it at the expense of other parts of the State. By confining themselves to that branch of industry in which they possess the most decided pre-eminence, the inhabitants of Barbadoes are enabled to procure breadstuffs with less labour than if they produced them at home, while they are able to supply sugar to the people of New York at a less cost than the latter would have to submit to if they raised it for themselves. That foreign trade might be carried on under such conditions was first distinctly shown by Ricardo; and Cairns, who has devoted several chapters of his "Leading Principles of Political Economy" to this subject, is of opinion that no inconsiderable portion of the commerce of the world is carried on under these conditions. While internal trade enables each class of the community to satisfy its own wants while devoting itself to the best mode of labour which the circumstances of the country admit of, external commerce enables people to obtain a moderate satisfaction for their wants without submitting to the inconvenience of expatriating themselves in order to repair to the place where their labour will be most productive. Of course, all such words as "external," "foreign," and "international," fail to express accurately the distinction which is important in an Economic point of view. The thing to be expressed is, that every industrial community is circumscribed within more or less elastic limits, outside which men do not so easily pass in search of profit as they do between places within them; and these limits may be imposed by political or religious divisions, or they may be the result of distance merely. England and Australia form part of one State, the citizens of which are equally entitled to their political rights in whichever part they may settle; but although large numbers of Englishmen have settled in Australia, and large amounts of Australian property is owned by Englishmen, the great distance which separates the two countries acts as an effectual bar to so large an emigration as would bring wages to the same level in both of them; and Australia still exports gold, and imports other things which could be made by the Australians themselves with less labour than is bestowed on

them in the exporting countries. Although the territory of the Russian Empire has a continuous land connection, it is probable that its farthest extremities are but little affected by what takes place at St. Petersburgh, and that the trade between the capital and the provinces is carried on in much the same way as between two independent countries. But, as a rule, the limits between the internal trade of a country and that which it carries on with other communities whose industrial systems are independent, are marked with sufficient accuracy by the Custom House barriers, and the name of foreign trade may be without any great impropriety applied to that of which the particulars are given in the statistical returns published by the Government. It is immaterial whether some of the countries with which it trades are colonies which have not yet renounced their allegiance to the mother country.

The exportation of commodities from one country to another is determined by the prices which they bear in the respective countries. If the difference is sufficient to cover the cost of carriage it will be the interest of merchants to buy the article where it is cheap, and to sell it where it is dear. It does not matter whether the article is of greater value in the exporting than in the importing country, provided that its price is lower, for the difference of price is all that is needed to secure a profit to the merchant. The quantity of tea which is worth a day's labour in China may be worth only half a day's labour in England, but as the value of silver is also greater in China, the English can afford to send out silver which it has cost them little labour to procure, and can obtain tea which it would be impossible to produce for themselves. Where trade is free, the prices of commodities which will bear transportation cannot long continue to differ by more than the cost of conveying them from the one country to the other; but their values may differ as much in different countries as the degrees of efficiency to which the labourers in each respectively have attained. A foreign merchant need only order a quantity of commodities in a country where they are cheap, transmit the necessary sum in the money of the country, and convey them to his own, and an effect will at once be produced on the price in one of the two countries if the difference between them is such as to leave him a large profit on the transaction. A number of merchants will seize the opportunity of enriching themselves thus afforded them; and when a large quantity has been imported, one of two things must happen. Either the home producers, finding that they receive fewer orders, will be obliged to reduce their prices, or cease producing; or the foreign producers, finding themselves required to furnish larger quantities, will raise their prices. Whether the foreigners monopolise the field, or a compromise be effected by settling the price at some point intermediate

between the two at which it formerly ranged, the same result is attained. The price is lower in the exporting than in the importing country, and competition will prevent the difference from materially exceeding the cost of carriage. The smaller the cost of carriage the more nearly will the prices of a commodity approximate to uniformity in every part of the world, and perfection is most nearly attained in the case of the precious metals; the price of silver, measured in gold, being, as nearly as possible, the same in England, Russia, and Japan. Although the power of transmitting gold and silver from country to country is a necessary condition of the establishment of equilibrum between the prices of the same commodity in different places, the exercise of this power is, as far as possible, avoided, and merchants use every effort to make the exports of each country pay for its imports without the use of bullion. If the foreign trade of each country consisted entirely of exchanging its products for those of other countries, the total of its exports would be exactly equal in price to the total of its imports; and, if it were occasionally necessary to remit bullion from one side, an equal amount would be subsequently returned; supposing, that is, that neither country produces the precious metals. We thus arrive at the principle enunciated by Ricardo, that the trade between two countries is practically one of barter, and that if they do not themselves produce gold, they exchange the same amounts on the same terms as they would do if they made no use of gold. It is, indeed, self-evident, that a country which does not possess mines from which gold can be procured, cannot permanently export it; and this consideration might suffice to show that, in the long run, foreign trade comes to the same thing as barter. Nor is it difficult to see how trade adapts itself to this condition, although every individual transaction is an independent one, and is based on the comparative prices of the particular commodity. Where the amounts which each country has to pay to the other are equal, the payments are effected by means of bills of exchange; and when they are unequal, it is only the balance which need be transmitted in gold. Such a transmission, by diminishing the quantity of money in the country, tends to reduce the general level of prices, since the value of the whole quantity of money in a country is equal to that of the commodities for which it is exchanged. Among the articles which thus fall in price there are sure to be some which are fitted for exportation, and a fall in price renders it more profitable to export them than it had formerly been. On the other hand, the influx of gold causes a general rise of prices in the other country, and thus encourages importation, so that from both sides a pressure is exerted in the same direction, causing an exportation of commodities and a re-importation of gold until the

balance is restored. It is not often that a general fall of prices manifests itself, and, indeed, it only happens at the time of a commercial crisis; but it is quite sufficient that the prices of a few should fall in order to produce the required effect. These may be articles which have been reduced in price through some improvement in the method of production, or they may be selling below their natural price in consequence of their having been produced in quantities too large for the home market to absorb in a short time. If the fall of price should attract public attention, it would, no doubt, be ascribed in each instance to the circumstances of the particular trade; but although such an explanation would be substantially correct, it is not inconsistent with the theory that the exportation of gold must bring about such a fall of prices as will increase the exportation of commodities. The mere fact that an improvement has taken place in production, though it is sufficient to induce foreigners to buy a larger quantity of the article, does not enable them to expend a larger sum of money upon it unless they are also provided with the means of paying for it. The fact that more money has been spent on foreign commodities compels retrenchment in other directions, and thus brings about that indisposition to purchase certain kinds of native produce which the persons engaged in each particular trade would think sufficiently accounted for by saying that trade was slack, or that the articles were not in demand. It is, however, through the prices of interest-bearing securities that the effects of the transmission of gold are most easily seen and felt. When gold is withdrawn from a country, its loss is chiefly felt by bankers and others who make it their business to lend money. Its loss exposes them to the danger of being unable to produce the sums which they have bound themselves to pay on demand, and they endeavour to protect themselves by offering every inducement to people to deposit money with them, and by discouraging borrowers from applying for fresh loans. In order to do this, they raise the rate of interest, both on what they borrow and on what they lend; and by the former course, they hold out an inducement to foreigners to send gold into the country, or to let it remain if they already possess some there. By raising the rate of discount (or the rate at which bankers lend), they produce some effect on the prices of securities, as there are always many persons who have been enabled to borrow money by pledging securities; and, if the rate of interest on the loan rises higher than that which the securities bring in, it soon becomes necessary to sell the security and extinguish the debt. Others again desire, for a similar reason, to part with securities in order to obtain higher interest by lending out the money which they can obtain by selling them. There are others who have purchased stocks with bor-

rowed money, and whom a rise in the rate of interest prevents from continuing their operations, and who are forced to sell out at any price. Bankers themselves always hold large amounts of good securities for the express purpose of selling them whenever they require a supply of ready money, and such is always the case when large amounts of gold are withdrawn for exportation. All these causes combine to bring an unusual quantity of securities into the market for sale, and the natural consequence is, a fall in their price. If the security is a good one, purchasers can generally be found, but if people are induced to buy in amounts, and at a time which are not such as they would themselves have chosen, they must indemnify themselves by receiving higher interest, which is effected by lowering the price of the security in question. At the present time all the principal stock exchanges of the world are connected with one another by telegraph, and any considerable fall in the price of a well-known stock is sure to be followed by large orders from foreign purchasers. There is less risk involved in the purchase of a stock than in that of a commodity whose price has fallen, for the money invested in the former does not lie idle, but brings in interest until the opportunity of selling arrives, while a commodity brings in nothing until it is sold, and the probable variations of its price are more difficult to foresee than those of a stock. Hence it is usually by the transfer of securities that the drain of gold from one country to another is checked, and as those which are sold in times of difficulty are subsequently bought back at higher prices, the surplus gold soon finds its way back to the countries from which it came. For simplicity's sake, it has been assumed that each country only trades with one other country, but the essence of the argument is unaffected by its extension to many countries all trading with one another. A country which has no gold mines cannot permanently export more gold than it imports, but England may continue to export more gold to France than she imports from France, because she imports gold from Australia without exporting any in return. England, in short, may act, and does act, as an agent for diffusing gold throughout the world. When a commercial treaty was arranged between England and France at the same time as the Treaty of Utrecht, it was rejected by Parliament on the ground that it was too favourable to France and that England lost by the French trade, which caused it to export a large amount of silver every year. If the fact were so it cannot have involved any loss of silver to England, which simply acted as the channel through which silver was brought from India to France. If the trade between the two countries had been entirely stopped, England would not have retained any more silver, and France would have received no less, but would simply have procured it direct from India, or through some other

channel than England. Taking into account the whole of the trade carried on between one country and the rest of the world, we see that it is essentially one of barter, and that no stream of gold can permanently flow out of a country where a source is not furnished by natural mines. Where a country does possess mines capable of supplying more than the quantity of gold required for its own coin and plate, it is naturally led to produce gold for exportation to other countries less favourably circumstanced. Australia and California raise gold for exportation, just as China raises tea, and England manufactures cloth for the foreign market. Comparative prices serve as the index in this as in other cases to determine when and where it is profitable to export gold. As gold can be raised in Australia with less labour than in England or Germany, wages measured in gold are higher in the former country, and, consequently, higher prices are paid for all those goods which require the same amount of labour for their production in Australia as in Europe. It thus becomes profitable for Australia to import goods from England, Germany, &c., and in order to pay for them it is necessary to export gold. It is not necessary for Australia to export commodities in order to bring back the gold, for her mines afford her ample means of replenishing her stock of coin, and it rarely, if ever, happens that Australian gold is returned to the country whence it came. The same cause produces a tolerably constant flow of gold from the United States to England, but in this case the current is sometimes turned in the opposite direction. This, however, only occurs in exceptional cases, when a large quantity of gold is suddenly required in New York, and the current does not probably continue to flow back up to the source of the stream in California. The greater distance of Australia of course renders it more difficult for England to supply any temporary deficiency in Sydney or Melbourne than in New York. The flow of gold from the countries where it is produced to the rest of the world is constantly tending to raise prices throughout the world, and those who have studied the subject have satisfied themselves that the prices of the principal articles of commerce have materially risen since the Californian discoveries. Although labour is more efficient in California and Australia than in Europe, the superiority does not seem adequate to explain the whole of the great difference between the rates of wages prevailing in those divisions of the world, and the former countries are still enjoying the advantage of possessing abundant mines which have not yet produced their full effect upon the value of gold throughout the world. When this has been done as great a rise of wages will have taken place in Europe as has occurred in Australia since 1851, and the possession of abundant mines will not confer any extraordinary advantage on Australia, though it may still constitute an

important feature in her industrial system. As it is not necessary that the imports and exports of gold should exactly balance each other between two particular countries, so it is not necessary that the amounts of commodities should be equal, for one country may make up the balance by means of its trade with a third country. There are several instances of what has been called a triangular commerce, in which one country pays for what it imports from a second by exporting goods to a third which exports other goods to the second. One of these is afforded by the trade between England, the United States, and China. The people of the United States consume large quantities of tea, which they import from China, but they do not pay for it by exporting their own products to China; they find it to be most convenient to all parties concerned to export their corn and cotton to England, while England, in its turn, exports to China enough of cloth and other articles to pay for its own imports and for those of the United States into the bargain. The transaction is easily effected through the medium of bills of exchange. Those Americans who export produce to England draw bills on London for the amount, and these bills are sold to the Chinese merchants who have imported goods from England. The English exporters, on the other hand, draw bills on China, which are bought by the Americans, and through the medium of bill-brokers one set of bills is made to purchase another set, and the transmission of bullion is, as far as possible, avoided. Germany, England, and India, form another trio of a similar kind; the exports of Germany to India not being sufficient to pay for its imports, and the balance being made up by exports to England. It is still less necessary that the exports and imports of a particular port should balance each other. It may be worth while to mention this, because Mr. Somers, in his entertaining work, "The Southern States since the War," seems to suppose that unless this happens there must be some artificial influence to prevent it. A great portion of his work is occupied with complaints of the pernicious effects of the protective tariff maintained in the United States, and his praiseworthy zeal in this direction has sometimes led him to ascribe to the tariff effects for which it cannot fairly be held responsible. He was struck, when at New Orleans, by the fact that nearly all the vessels that entered the port came in ballast, the exceptions being chiefly vessels bringing iron from Cardiff. He ascribes this to the tariff, which he supposes prevents the people from importing foreign goods in exchange for their cotton and sugar; but a little consideration is enough to convince us that the facts do not warrant such an inference. Granting that the people of the Southern States exported nothing for which they were not to receive an equivalent, it does not follow that this equivalent must be brought to

them through the port of New Orleans. They might receive their money's worth in the shape of clothes and furniture from the manufacturers of the north, while the north would receive its payment in the shape of goods imported from Europe, and paid for by southern exports. It is true that the tariff encourages northern at the expense of European manufactures, but even without any artificial stimulus, there would still be a considerable inducement to buy native rather than foreign goods, and save the cost of carriage. Even if the Southerners did receive all their payment in the shape of goods imported through New Orleans, there might still be a preponderance of ships arriving in ballast, for the value of commodities is not in proportion to their bulk, and two freights of equal value do not always require the same number of ships to carry them. Had Mr. Somers extended his observation to Cardiff, he would have found that it presented a similar spectacle of numerous vessels arriving in ballast, the exceptions being chiefly those bringing iron-ore from Bilbao, and this might suffice to convince him that an artificial interference is not necessary to account for an excess of exports over imports in a particular port.

At the time when Mr. Somers visited the United States, the total imports into the country largely exceeded the exports, and this state of things had continued for some years before, and lasted for two years after his visit. If the Southern States imported less, and the Northern States more than they exported, the difference cannot be attributed to the tariff, for the same duties are levied at New York as at New Orleans. To what cause it ought to be attributed, is a question which cannot be answered without knowing something more of the financial position of the country than can be learnt from its revenue and currency laws. There are several transactions between different countries besides those of simple exchange, to effect which it is necessary to transmit money, or money's worth, from one side to the other. Owners of estates in one country may reside in another, and require to have their rents transmitted to them. If the country which has to make the payment possesses mines of gold or silver, the necessary sum may be sent in one of these metals; but if there are no mines, other kinds of produce must be sent, and, at all events, the exports of the country must (if not counterbalanced by some similar payment from elsewhere) exceed its imports, since they must be sufficient to pay for the latter, and for the rents into the bargain. Complaints have often been made of the burden imposed upon Ireland by the necessity of exporting its produce to pay the rents of absentee landlords, but whatever may be the evils of absenteeism, the mere loss of commodities which this exportation occasions is no greater than must be endured if the landlords staid at home. Wherever they

lived, they would require servants to wait on them, and tradesmen to provide them with luxuries; and, in any case, the burden of supporting those who minister to their wants would fall on the Irish tenants. If the landlords lived in Ireland, their attendants would do so too, and the population would be somewhat increased; but, as their consumption would be the same, the produce of Irish farms would be quite as much lost to the producers as if it were exported. At the present day very large sums are always due from one country to another in respect of dividends on shares in various undertakings owned by persons residing in other countries than those where the business is carried on. This is particularly the case between colonies and their mother country; a colony holds out a more tempting field for commercial enterprise than a foreign country can generally do. The similarity of the language, of the laws, &c., renders it more easy for investors to understand the position of a company which is to carry on business in a colony subject to the Government of the investors' country than that of a foreign company, which is always regarded with suspicion when its shares are offered for subscription out of its own country. When colonists have made a fortune, they are fond of returning to the mother country, whose superior wealth and civilization usually render it a more pleasant residence for a wealthy person than a young colony can be, and they require to have transmitted to them the dividends upon such of their colonial investments as they think it worth while to retain. These dividends must be remitted in the produce of the country which has to pay them, whether this consists of the precious metals or of other commodities. In the first instance, when the loans are raised, a large exportation takes place in one direction, and when the whole has been subscribed, the stream begins to flow back, partly on account of the payment of dividends, and partly through the re-purchase of the stocks on the part of the country which first contracted the loan. The United States, at the time above referred to, were in the first stage of such an operation. As has been fully explained by Mr. D. A. Wells, in his able reports to the United States Treasury, the country continued to borrow large sums year after year from Europe, partly by means of loans to the Federal Government during the war, and more recently by loans to the various States of the Union, and to railway and other companies. Such was the extent of these loans, that the country was enabled to import more than it exported to the average amount of a milliard of francs for years together. Many of the loans were raised for the purpose of constructing railways, and the proceeds of the subscriptions were doubtless often laid out in the purchase of rails in England, which, of course, appeared among the imports of the United States. Such a process, though it may continue for several years, cannot

go on indefinitely, for, as was pointed out by Mill, a country which borrows an equal sum every year, will in time have to pay more on account of interest than it receives on account of principal, and a reaction will be naturally produced. If the average rate of interest on the loans be 6 per cent., and the same amount be borrowed every year, the amount due for interest will, at the end of seventeen years, exceed the annual loan, and the excess will be constantly increasing year after year. This consummation can only be averted by continually increasing the amount of the annual borrowing, but a nation which engages in such a course is liable to encounter a rude check when anything occurs to shake its credit abroad. Such a check has already been given to American borrowing by the crises of 1873, and the returns of the year ending June 30, 1874, shew that the exports exceeded the imports, so that the reaction has already set in. The numerous instances of defalcation and repudiation which have disgraced so many companies and States in the American Union have not been sufficient to shake the faith of European investors in the general soundness of American securities ; but industry was so much disorganised by the crises, that the country for some time afterwards afforded but a poor field for financial enterprise. Every civilized country has to remit and receive sums of more or less magnitude, on account of the expenditure of such rich citizens as travel abroad, or of foreign travellers who visit it. Where the travellers who leave the country are both numerous and wealthy, and the country does not offer sufficient attraction to induce an equal number of foreigners to visit it, there must be an excess of exports in order to provide for the expenditure of the travellers abroad. Such is the case with Russia, whose wealthy nobles are fond of residing abroad, and who draw such large sums from home to meet their expenditure as constitute an important item in Russian trade. They pay for what they consume by drawing cheques or bills on Russian banks, and the possession of these orders enables foreigners to obtain Russian produce. England, in like manner, has to remit the produce of her manufactories in order to pay for the expenditure of English travellers in every part of the world. They get what they want by paying in coin or in notes, but the transaction does not end here, for the English notes are sent to England, and enable foreigners to purchase English produce, which is then exported. A country like Switzerland, which is visited every season by a crowd of tourists from every part of the world, is able to import foreign commodities without exporting anything in return. Instead of the Swiss sending their produce abroad, foreigners come to consume it in Switzerland itself, the only difference being that the cost of carriage is reduced to one-half of what it would otherwise be.

England affords an example of a country which is reaping the fruit of large investments in foreign countries, and which is able to import more on account of dividends than it exports on account of principal. By merely continuing to lend equal, or nearly equal amounts every year, a country, at length, arrives at a period when the dividends on the old loans overbalance the principal of the new loans, and this point once reached, the excess of the return over the outlay is pretty sure to continue increasing. The returns of English imports and exports for the twelve years, 1860-71, reduced to milliards of francs, are given in the following table:—

Years.	Imports.	Exports.	Years.	Imports.	Exports.
1860	5.2	4.1	1866	7.3	5.9
1861	5.4	4.0	1867	6.8	5.6
1862	5.6	4.1	1868	7.3	5.7
1863	6.2	4.9	1869	7.3	5.9
1864	6.8	5.3	1870	7.5	6.1
1865	6.7	5.4	1871	8.2	7.0

Thus it will be seen that in every year included in the series, the imports exceeded the exports by more than a milliard. If the whole of the imports must be paid for by exports it would have been necessary to export gold and silver every year to the extent of more than a milliard, and as our gold and silver currency does not much exceed two and a half milliards, two years would have been sufficient to drain the country of its coin. Yet the returns of the bullion trade during the same period show in every year a preponderance of imports over exports. This excess of imports is easily accounted for on the supposition that the debts owing by foreigners in England are much larger than those owing by Englishmen abroad, but the statistics are not in themselves sufficient to decide whether it is due to loans subscribed abroad for the benefit of England, or to dividends due to Englishmen for loans made to foreigners. When Mr. Gregg complained of the loss England suffered through her large investments in foreign stocks and shares, Mr. Grant Duff replied that it was counterbalanced by the investments of foreigners in English stocks. No doubt there is a large amount of Consols and other English securities constantly held by foreigners, as is shewn by the amount of personalty sworn to in the Court of Probate, which is disposed of under foreign Wills; but Mr. Grant Duff hazards a bold statement when he supposes that this amount is equal to that of foreign securities held in England. If any large amount of a stock is held in a foreign country, it is sure to be quoted on the Bourse; and our own official list furnishes ample evidence of the multifarious foreign investments which are patron-

ised by English capitalists, but Mr. Grant Duff is probably not prepared to maintain that the shares of English companies are as frequently quoted on foreign Bourses as those of foreign companies on the London Stock Exchange. When a foreign Government or company raises a loan, London is commonly one of the places at which tenders are received, and though there is nothing to prevent foreigners from sending orders and subscriptions to London, it would not be singled out for the purpose unless it had been found that a great part of the subscriptions came from England. In the case of the United States, the excess of imports has been accounted for by a continued supply of fresh loans, but in that case it is notorious that American railways have been built at English expense, and that enormous amounts of railway mortgage bonds are held in England and Germany. In the case of England, we do not see either the Government or private companies offering loans for subscription in foreign markets, but we do see English subscriptions invited for loans to every civilized government, and we see companies formed in England for supplying other countries with banks, railways, gas, water, and, indeed, almost everything which they can be supposed to require. We see wealthy colonists retaining their estates while residing in England, and we see advertisements in English papers offering foreign estates for sale, as if foreigners expected that English purchasers would keep up the price by their competition. Under these circumstances, we may be justified in concluding that more property is held by Englishmen abroad than by foreigners in England, and in thus accounting for the excess of English imports. The natural effect of this excess is, that more bills are drawn by foreigners on England than by Englishmen on foreign countries, a fact which has been noticed by Mr. Palgrave in his paper referred to in the last chapter.

The trade between Australia and England illustrates the position of a tributary country which has to export more than it imports, in order to pay the rents and dividends due to persons residing in another country. The following table shows the imports into the United Kingdom from Australia, and the exports to the same quarter during the five years 1868-72, expressed in millions of francs :—

Years.	Imports.	Exports.
1868	475	325
1869	500	350
1870	500	250
1871	525	275
1872	525	375

Among the imports are included the gold and silver, which always amounted to somewhat over 150,000,000f., and was thus always absorbed

in paying the excess over and above the exports. Mr. Cork, who has discussed the subject in a paper on "The Statistics of Australasian Banking," considers that a sum fully equal to this excess is annually due to proprietors residing in England. He estimates that 75,000,000f. are due to absentee landlords, and 100,000,000f. to persons who have invested in Government loans and in companies of various kinds.* It may be expected that, as time goes on, the balance will be redressed, as may be done in various ways. The landlords may come to reside on their estates, or may sell them to others who will do so. The Governments of the colonies may gradually redeem their loans, and the colonists may buy up the shares of the successful companies; and though, while the process is going on, the balance will be turned against Australia even more than it is at present, the ultimate effect will be to produce equilibrium. The payment of the war indemnity by France to Germany illustrated the effects of an artificial importation. So large a sum as five milliards was not, and could not be imported into Germany in the shape of gold, but Germany was enabled to obtain without cost a large stock of gold for its new coinage, and the sudden addition to the purchasing power of the people produced a marked rise in the prices of many commodities, which encouraged importation from France and elsewhere. The rise of prices did not neutralise the advantages of the indemnity, but enabled the Germans to obtain the advantage which consisted in obtaining an increased quantity of commodities. The illustrations which have now been given are sufficient to show that we cannot accept without qualification the statement that the exports of a country pay for its imports, and that the correct account is that they discharge all its liabilities, whether these are created by exchange transactions or by other causes.

Although the merchants engaged in foreign trade make every effort to escape the necessity of transmitting the precious metals in order to pay for the commodities which they import, it is quite impossible for them to avoid it altogether; and there is no time at which some ships are not engaged in transporting gold and silver from one country to another. This is, of course, necessary between the countries which possess mines and those which do not, but, apart from this, it is constantly necessary to transmit specie or bullion, in order to adjust the balance of transactions between countries, none of which possess mines of their own. Every transaction in commerce is an independent one, and there is no reason why the purchase of French goods by an Englishman should be immediately counterbalanced by an equivalent purchase of English goods by a Frenchman. When this is not the case,

* Journal of the Statistical Society, 1874, p. 59.

the debt incurred through the importation of the French goods, must be liquidated by sending gold to France, and, in the language of commerce, the exchange is said to be against, or unfavourable to, England. These expressions come down from the time when it was generally believed that the object of commerce was to bring gold and silver into a country, and that a country lost by a trade which compelled it to export these metals. Although this notion is now almost extinct, the phrases to which it gave rise have been too much hallowed by time, and are too convenient to be abandoned; and, in fact, an unfavourable state of the exchange is prejudicial to the numerous class who are engaged in lending and borrowing money, and is usually one of the causes which bring on a commercial crisis. When the balance of payments is turned against a particular country, the fact soon makes itself known by a rise in the price of foreign bills. If the exports of a country are just sufficient to meet all its liabilities, those who have to make payments abroad can best do so by purchasing the bills drawn against these exports and sending them abroad, while the foreigners who have payments to make in the country buy up the bills drawn upon it, and the two sets of bills balance each other. When the amount of foreign bills offered for sale is just equal to the amount required by those who have to make payments abroad, the bills will be sold at par, *i.e.*, a bill for a thousand francs will fetch a thousand francs, or very nearly that sum. But if the amount required is larger than that of the bills offered, the wants of all the intending purchasers cannot be satisfied without the transmission of gold or silver, as the case may be. They may, and probably will, be able to purchase the full amount of bills which they require, but some of these will be created for the purpose by dealers who make it their business to sell bills on their foreign correspondents, and to send over bullion to enable their correspondents to meet the bills when they become due. In order that it may be worth the dealer's while to create such bills, he must derive sufficient profit from the transaction to cover the expenses of the conveyance of the bullion of the insurance against such possible loss, and to leave him something over for the use of his money in this particular business. To obtain this he must sell his bills for something more than their nominal amount, *e.g.*, may charge a thousand and five francs for the bill for one thousand francs. The other holders of bills, of course, wish to sell their wares at the highest price, and therefore demand the same as the dealers who have actually incurred the expense of transmitting bullion, although in their case no such outlay is necessary. It then becomes known that bills on a particular country are selling at a premium, and those who study the cost of the exchanges, can tell, from the amount of

the premium, whether it is profitable to export bullion, and if they find that it is, some of them will do so in order to be able to draw bills against it, and sell them at a profit. The principal cause of the constant fluctuations in the rates of exchange between different countries is the cost of transmitting bullion, but there are various other circumstances to be taken into account by those who wish to understand every variation as a matter of theoretic or practical interest. A very clear account of the general principles involved has been given in a work on "Foreign Exchanges," published in 1862, by Mr. Goschen, who has since become so well-known as a statesman. An elaborate account of the technical details of the system has been given by Mr. Seyd in his "Bullion and Foreign Exchanges," which contains all the information which can be imparted by one who is familiar with its practical working. These two works combined will enable any reader to understand as much of the subject as is needed for the comprehension of the general principles involved. The motive which prompts men's actions here, as in other departments of industry, is the desire to obtain wealth with the smallest possible labour. The object of those who buy and sell bills is to avoid when possible the expense of transmitting bullion, and where this cannot be done, to reduce to a minimum the expenses which must be incurred before the gold taken from one country can be used to discharge debts in another. Where a great distance separates two countries, the length of time which must elapse between the drawing and the payment of a bill becomes an important item to be taken into account in fixing its price. An order to pay one thousand francs six months hence will not exchange for a thousand francs in ready money, but for as much less as corresponds to the interest which the purchaser might obtain if he employed his money for six months in some other way. The amount of this difference, or discount, varies, of course, with the rate of interest prevailing at the time and place where the bill is purchased, and attains its maximum at the time of a commercial crisis. During the American crisis of 1873, bills on London were sold at as low a rate as 5 per cent. discount, although at other times the rate seldom reaches a higher figure than 1 per cent., and this was not on account of any increase in the difficulty of transporting gold across the Atlantic, but because every one who was in possession of ready money wished either to keep it himself or to lend it out at the high rates of interest then prevailing. Except at such times the variations in the rates of exchange are confined within very narrow limits, but the rate of interest must always be taken into account unless the countries are very near together, and the bills are drawn for very short periods. Leaving the rate of interest out of the account, we see that the discount cannot long exceed what corresponds to the cost of

conveying the precious metals from one country to the other. If the expense of freight and insurance be one-half per cent., no one who has a bill for 1,000 francs will take less for it than 995 francs, for it would be cheaper for him to get his bill paid in gold and bring it to his own country. On the other hand, no one would give more than 1,005 francs for it, because it would be cheaper for him to send gold over to the place where he wishes to make a payment. Between these two points any rate may be fixed by mutual competition, and as long as it keeps within these limits no gold will be sent either way. The subject is somewhat complicated by the fact that different nations use coins of different weights and sizes, and do not accept foreign coins in payment of debts, or, at least, not so readily as their own coin. If a banker has to transmit money from Australia to England, he can do so in the coin of his own country, because this circulates in both countries alike; but if he has to send it from England to France, English coins will not be found so suitable for the purpose, for they are not legal tender in France, and are not of such sizes as to correspond easily with any given amount expressed in French coin. The amount of gold contained in a sovereign is equal to that in 25 francs 22 centimes, which is an inconvenient proportion to calculate, and the sovereigns which are spent in France by English travellers are usually received as equivalent to no more than 25 francs. When a large remittance is to be made, this slight difference is worth taking into account, and the rate of exchange between England and France very seldom falls so low as 25 francs to the sovereign. As the expense of conveyance is about one-half per cent. it should never fall below 25f. 10c., or rise above 25f. 34c., and in fact gold is sent when the rate falls to 25f. 13c. It is usually sent in the form of gold bars, which are either taken to the Paris Mint to be coined, or are deposited in the Bank of France as a security for advances, or are sold to the Bank at the same price as that which the Mint would give for them. The Paris Mint charges a seigniorage of 6f. 70c. per kilogramme, and the Bank of France, of course, makes an equal charge. As a kilogramme is coined into 3,100f. this deduction is equal to a charge of about one-fifth per cent., which is lost by the person who sends ingots to pay a debt in Paris. This loss is to some extent counterbalanced by the greater convenience of ingots, which take up less room, and can be packed with less trouble than coin. For many years the Bank of England has been accustomed to buy French coin as well as that of two or three other foreign countries, and to sell it again to persons who desire to make payments abroad, and thus the inconvenience occasioned by the difference of coinage has been, as far as possible, minimised; but as the Bank must make a profit by the transaction, the price at which it buys the coin is

rather less than what would correspond to their weight in English coin, and some loss is occasioned to the importer. As the imports of one country from another may be paid for by exports to a third, so an unfavourable exchange between England and France may be corrected by calling in the aid of the bills passing between these two countries and Holland. There are dealers who make it their business to study the rates of exchange prevailing between foreign countries, as well as those between their own and foreign countries. If they find that they can effect payment in France more cheaply by buying a Dutch bill on France than by remitting gold from England to France, they will proceed to buy such bills, which will have the effect of increasing the price of bills on Holland, and lowering that of bills on France, and thus restoring equilibrium. As each country has a coinage of its own, it is a matter of some difficulty to ascertain this point, but the calculations are not too complicated to be performed by experts, and the ease with which it can be done is a measure of their powers of making a fortune. Where two countries have not only a different system of coinage but a different standard of value, the limits of variation are very much extended, for they must include not only the cost of conveying gold or silver but the fluctuations in the proportion between the values of these two metals. A few years ago the proportion was $15\frac{1}{2}$ to 1, but the demonitisation of silver by the German Government raised it to about 16 to 1, and the effects of the change were at once seen in the lower prices which were paid in London for the Mexican dollar and Indian rupee. As an unfavourable balance of trade tends to correct itself by giving rise to an exportation of commodities and an importation of bullion, so an unfavourable state of the exchanges is gradually corrected by the operation of the same cause. Merchants are guided in their dealings by a comparison of the prices ruling in the home and foreign markets, and have to consider whether the difference is great enough to cover all the expenses which must be incurred when goods are sent from one country to another. The price at which an exporter can sell the bills which he draws on his foreign correspondent is one of the items which he must take into account in calculating the profit to be derived from the transaction. If the exchange is at 25f. 10c. to the pound, he can sell his bills on more favourable terms than if he can only get £1 for every 25f. 30c., and this difference, slight as it is, may make all the difference between making a profit and incurring a loss. Hence, when the exchange falls, it becomes worth while for English merchants to export goods to France, which they could not do at other times, and to draw bills on their correspondents for the amount. These bills being sold in England, supply the wants of those who have imported goods

from France, and thus the excess of importation naturally brings about a counterbalancing increase of exportation.

Mill has devoted an essay to the discussion of the question what determines the values of the commodities which are the subjects of foreign trade. Articles produced in the same country exchange for one another in proportion to their cost, *i.e.*, the labour and abstinence undergone in producing them; but this rule does not apply to articles produced in different countries. As labour and capital do not move so readily from one country to another as from one part of the same country to another, competition has not the same power of bringing wages to the same level; and though it can effect a tolerable equalisation of prices, yet, as different rates of wages prevail in different countries, the same price represents different costs of production. The principle, however, which governs the case, is the same as that which applies to the products of different classes of labourers within the same country. An article which a farm labourer has produced in a day does not exchange for one which a watchmaker has spent an equal time in producing, because the latter is a more skilful operative, and the remuneration of labour depends upon its efficiency as well as on its irksomeness. In the same way, a country in which labour is highly efficient is able to procure commodities from other countries whose labour is less efficient on more favourable terms than the producing countries themselves. The rate of wages paid to farm labourers in the United States is about twice as high as that which rules in England, but, unless the cost of carriage rises as high as 100 per cent., English commodities are sold in the United States for less than double the prices which they fetch at home. Using the term "value" in the sense given to it in Book II, Chap. I, the value of English commodities is, in many cases, lower in the United States than it is in England; and the explanation is, that labour is more efficient in the United States. To the question what determines the value of a foreign commodity, it may be answered that it depends on three things: its cost of production, the difference between the efficiency of labour in the two countries, and the cost of carriage. If the last could be left out of the account, the value of English commodities in the United States would be just half what it is in England; or, in other words, the value of each would be about equivalent to half as many days' labour as had been needed to produce it. Such is the explanation furnished by the theory of value and wages set forth in the Second Book, and seems to be all that is required to render the general principle intelligible. Mill used "value" in the sense of ratio of exchange, and the problem which he set himself to solve was, accordingly, What is the ratio in which commodities would exchange when they are produced in one

country and consumed in another? Seeing that cost of production was not sufficient to account for the rates which might be established, he sought for a fuller explanation in the principles of demand and supply. He framed imaginary cases, and followed them out through considerable ramifications, and his explanation has been praised by Cherbuliez and Cairnes as an important addition to the science. But, with all respect for his memory and for the eminent men who have endorsed his theory, I must submit that he has not really explained the subject, but has merely re-stated the problem in a different way. In Book III., Chapter xviii. of his well-known work, he has gone over the ground very carefully, and has illustrated his arguments at great length; but, after all, he sums up by telling us, "The law which we have now illustrated may be appropriately named the Equation of International Demand. It may be concisely stated as follows: the produce of a country exchanges for the produce of other countries at such values as are required, in order that the whole of her exports may exactly pay for the whole of her imports." (Sec. 4.) But in the case which Mill was considering, it was assumed that the two countries concerned had no transactions with one another except those of simple exchange, and as in such a case the exports and imports must be equal, the law which he enunciated amounts to the statement that the ratio of exchange is such that the exports pay for the imports. But the fact that the exports pay for the imports implies that the two exchange for one another, and to say that the ratio is that in which the two exchange, is to say that the ratio determines itself. If, instead of considering the trade between two countries, we were considering an exchange between two individuals, and wished to know why ten grammes of gold would exchange for a pair of boots, it would not help as much to tell us that this ratio was established because it was just sufficient to equalise the monies spent and the goods purchased. The fact that the goods were bought, implies that the money given on one side was equal in value to the boots given on the other; but, in order to explain why ten grammes rather than nine or eleven grammes were given, we must refer to something else than the facts implied in the bargain itself. It is not because the owner of the gold is determined to get rid of ten grammes, that he offers them in exchange for the boots, nor does the owner of the boots give them for ten grammes of gold, because that is the whole supply which is offered him. Ricardo's theory of value refers us to the cause which compels each of the parties concerned to agree to the bargain, and this cause is the amount of labour and abstinence which has been undergone in order to produce the two commodities which exchange for each other in proportion to their cost of production. Whatever ratio of exchange has been established by competition, it is obvious

that the two things exchange for one another; but this does not explain why a particular ratio should happen to prevail. Mill himself seems to have felt that his explanation was unsatisfactory, for, further on in the same chapter (Sec. 6), he observes, "That this, however, does not furnish the complete law of the phenomenon, appears from the following consideration: that several different rates of international value may all equally fulfil the conditions of this law." He then proceeds to examine still further the different circumstances which may cause one country to consume more or less of the productions of another country, but as his argument still proceeds on the assumption that the matter can be explained by confining the attention to the exchange without reference to the cost of production, it still remains open to the objection that it does not point out any circumstance a knowledge of which would enable us to predict the ratio of exchange. By reference to the cost of production in one country, and to the comparative efficiency of labour in the other, the value of any foreign commodity can be explained, and if these particulars are known in the case of two commodities, a comparison of them will explain the ratio in which the two will exchange for each other. Mill wished to arrive at this result by enumerating all the conditions which would lead to an increase or diminution of demand on the part of one country for the productions of another; but these circumstances, though they may influence the total amount of a nation's trade, can only affect values by operating on the cost of production. Whatever may be the extent of the demand, whether domestic or foreign, the value of a commodity will not permanently rise unless its cost of production, or of conveyance, be increased; and a reference to such an increase in its cost, constitutes an explanation of the rise of value.

Cairnes, who has devoted a chapter to this subject, has accepted Mill's theory with some modifications rendered necessary by the difference between his and Mill's views respecting demand and cost. The word "demand" signifies with Mill, the quantity demanded; while with Cairnes it signifies quantity of commodities offered in exchange for the one required; so that, in his sense of the word, the two commodities which are exchanged in every bargain constitute a demand for each other. When discussing the subject of value in an early portion of his book, he refers all cases which cannot be explained by cost of production to the action of reciprocal demand (p. 99). When discussing the subject of international values, he again refers to this principle for an explanation. He says, "Where the monopoly is at once strict and reciprocal, a case not frequent in international trade, but which sometimes does occur, as in the traffic which takes place between the tropical and the frozen zones, in the exchange, suppose, of spices for ice. In this case the

influence of reciprocal demand on value is unqualified and absolute, since, under such circumstances, there is nothing but the desires on each side, supported by such means as are available to give them effect, to determine the bargain." (Part III., chap. iii., sec. 3). But in Cairnes' language, reciprocal demand means the commodities offered on each side; so that, in his example, the spices constitute the demand on the part of the tropical, and the ice the demand of the frozen zone. When, therefore, we ask what determines the proportion in which spices and ice exchange for each other, we learn that it is the desire on the part of the consumers which induces them to give a certain quantity of their own products in order to procure its satisfaction. There is nothing, he tells us, but the desires and the means of giving them effect to determine the bargain; but the question is, What determines the means of giving effect to the desires, and what enables the desires to be satisfied at a particular cost? In every bargain there is a desire to be satisfied and a sacrifice to be incurred, but Political Economy is not content with the explanation that the bargain is settled by the play of these two factors. In the case of ancient works of art which cannot be produced when required, no law can be laid down to determine their value; and a similar admission ought to be made in all cases where nothing further can be offered as an explanation than reciprocal demand. In the case assumed by Cairnes, the value of ice in the frozen zone depends on the cost of conveying it from the sea or river where it is found to the house where it is wanted, and its value is increased by the cost of conveying it to the tropical zone. But when it has been brought there its value may not be so great when compared with the labour of the tropics as with that of the frozen district from which it came. The rate of money-wages may be twice as high in the importing as in the exporting country, and thus the price may be remunerative, although its value at the tropics may be no greater than that of the spices which have required half as much labour to produce them. This difference in the rate of wages would be owing to a corresponding difference in the efficiency of labour in the two regions, and thus the value of ice in the importing country would be determined by two factors: its cost of production, and the comparative efficiency of labour in the two countries. The proportion in which spices and ice would exchange for each other would be determined by a comparison of these factors in both cases. Here, then, is the difference between the explanation of value in the case of foreign imports given above, and that furnished by Cairnes. The one explains the value of foreign commodities by the same principles as those which govern the cases of articles exchanged in the country where they are produced; while that given by Cairnes refers it to a different

principle, and virtually leaves it unexplained. I have thought it necessary to discuss the theories put forward by Mill and Cairnes on this subject, because their works deservedly stand high in public estimation; and it is of some importance that even an occasional error committed by them should be at once corrected. It will not, I trust, be thought that I have any wish to deny the ability and clearness with which they have illustrated many of the most intricate problems presented by foreign trade.

Where commodities of the same kind can be produced in several countries, competition will effect an equalisation of prices in the same market, and each country will be called on to produce a larger or smaller quantity, according to its natural capacity for production and its vicinity to the place of consumption. The tendency of Free Trade is to confine each country to the production of those articles for which its soil and climate are best fitted, and to establish a division of labour among different countries similar to that prevailing among different districts of the same country. There is, however, but little probability that such specialisation can ever reach perfection, for whatever improvements may be effected in the means of transport, the item of distance will always be an important one in the account, and those countries which are nearest to the market will always be able to continue production, although in other respects they may not be so favourably situated as others at a greater distance. Distance acts as an impediment to trade in other ways besides merely increasing the cost of carriage, for it increases the difficulty on the part of the producers in understanding the wants of the consumers, and it, to some extent, lessens the confidence which the dealers can repose in one another. Even where one country has a decided advantage over the rest of the world, it does not follow that it would retain its position if it were to attempt to produce enough to supply the whole world. England has a great advantage in the production of coal; but if England were to endeavour to supply the whole world with coal, it would have to raise a very much larger quantity than at present, and this would necessitate the opening out of new shafts and the deepening of old ones, whereby the cost of obtaining the mineral would be so much increased that it would be cheaper for foreigners to produce it for themselves than to import it from England. Coal is a bulky article, and the cost of transport is very great where large quantities are concerned. At present, indeed, English coal is exported to every foreign port, but this is only possible under certain peculiar conditions of trade. Newcastle coal, being of a remarkably fine quality, is required for English steamers, even though the cost is extremely high, and part of the export is thus accounted for. The rest

is chiefly sent to ports from which goods have to be brought to England, without any equal bulk being sent from England in return. The ships employed having to make one voyage without a cargo, their owners are obliged to load them with something as ballast, and coal being excellently adapted for this purpose, it is worth while to send it to any port where it can be sold for something more than its cost price. The cost of its carriage is rarely paid by the freight received for the return voyage; and, as an instance of the peculiar character of this trade, it may be mentioned, that the charge for conveying coal to Peru is no greater than for conveying it to Spain. This subject has been fully treated of by Mr. Jevons, in his valuable work on "The Coal Question," where his object is to show that England cannot import coal to supply the wants occasioned by the gradual exhaustion of her coal-fields, and it, of course, serves equally to show that England cannot supply the whole world with coal. The principle which applies to coal applies equally to all products of the extractive industries, and, though it does not to the same extent apply to manufactures, still there are limits to the extension which these can receive within the limits of a single country. A country which possesses an inherent capacity for engaging in a particular kind of manufacture will be encouraged to devote itself to this employment by receiving foreign orders backed by foreign goods sent in exchange, and, if necessary, will receive corn from abroad to enable its artisans to subsist without producing their own food. Such, in fact, is the position which England now occupies, as she receives food from almost every agricultural country, and pays for it with the products of her manufactories. But although foreign countries derive a great advantage from thus making England their workshop, the benefits of the system are not so great that England can monopolise the whole of the manufacturing business of the world. To do this, her people would need to be crowded into towns to a much greater extent than at present, while foreign countries would be almost entirely confined to agriculture, and such a state of things would lead to social and political evils which would far outweigh its commercial advantages. The dread of foreign competition, which is perpetually finding expression in the letters and speeches of commercial men, seems to be based on little more than the fact that foreign commodities are imported, but they would perhaps be puzzled to explain how foreign trade could go on if such importation did not take place. There is nothing chimerical in the belief that a country may suffer material injury from foreign competition, and Ireland affords an instance where this has actually occurred. In the "Fragments on Ireland," which form a most interesting part of Cairnes' "Political Essays," it has been very ably shown that the great

increase of the population of Ireland during the latter part of the last, and the earlier part of the present, century, was owing to the corn laws, which gave the Irish farmers so great an advantage in the English market; and that the great depopulation which we have witnessed in the last thirty years was occasioned by the adoption of Free Trade, and not, as is generally supposed, by the potato blight. But, to judge from the complaints of manufacturers, they would seem to suppose that every instance in which a commodity is imported which might have been produced at home shows that England's powers of production are declining, and that foreigners are supplanting Englishmen in their own market. If those who speak and write thus would consider the nature of trade, they would see that the instances to which they point show, in reality, that England is still capable of producing enough for her own wants as well as supplying those of foreigners. If commodities are imported, they must either be paid for or obtained without payment. In the former case, English commodities must be exported to pay for them, and thus the very fact of the importation furnishes a proof of the activity of English production. In the latter case, the commodities are sent in order to discharge debts due in England, and thus afford a proof of the wealth of the country which has made judicious investments abroad; and it is difficult to see how the fact that other countries are tributary to it can be made to prove that its wealth is declining. There is much to be done by English merchants and manufacturers who wish their country to succeed in the race of competition, and the most important matter to which they can devote their energies is, the maintenance of strict integrity in their dealings with foreigners. It is a melancholy fact, that the seat of various branches of manufacture has been repeatedly changed, less on account of any natural disadvantage in the place itself, than on account of the dishonesty of the persons engaged in it. The Irish flax trade and the woollen manufactures of the Eastern Counties have suffered severely from the dishonesty formerly practised in them; and there are instances at the present time in which countries are threatened with the loss of extensive trades from equally disgraceful causes. It has been repeatedly made a matter of complaint that the cotton goods sent from Manchester to China are for dishonest purposes loaded with so much sizing as to be subject to mildew when they have reached China, and the practice has now become so general that Chinese merchants are unwilling to accept English goods of this class. A similar complaint has been made in England and in Russia of the adulteration of Chinese tea; and the great extension of tea-planting in India is owing to the belief, whether well or ill-grounded, that the Indian planters have not yet learnt to follow the example of their Chinese rivals. If those

who complained of foreign competition will set themselves to reform evils like these, they may secure a great extension for the trade of their own and of foreign countries; but it is of little use for them to complain of importation as a proof of the decline of native industry.

That foreign trade is advantageous has long been recognised, but very different reasons have been given at different times to prove it, and different measures have been proposed for determining the exact amount of benefit which it confers; at first, it was generally held that the benefit consisted in the amount of the precious metals which it brought into a particular country, and, according to this theory, a trade which caused a country to export these metals inflicted an actual loss upon it. That this theory was erroneous a very little consideration will now enable anyone to perceive, for it is evident that these metals, though they are useful, are not the only objects which men desire; and that a trade which brings men hardware, or wines, or cloth, satisfies their wants and is useful to them, just as much as one which supplies their needs for gold and silver; as, according to this theory, wherever two countries exchange gold for other commodities, the one must lose what the other gains. It would have been difficult for those who held it to explain how such a trade could be carried on, as the people of one must be supposed to be continually blind to their own interests. The trade of the East India Company was actually assailed as prejudicial to England because it carried silver out of the kingdom, and the defenders of the Company could make no better defence than that the goods which they brought from India were subsequently exported to other countries and sold for silver, so that the exportation of silver was the means of bringing about a large importation. In this theory the satisfaction of human wants goes for nothing, and the question is regarded solely from the dealer's point of view. The object of tradesmen is to sell their goods, and hence it was supposed that the object of a country was to sell its produce for gold and silver. Adam Smith, although he exposed the fallacy of supposing that these metals were the sole objects of trade, was yet so far under the influence of the theory that he regarded the subject from the dealer's point of view. Thus, when speaking of foreign trade, he says: "It carries out that surplus part of the produce of their land and labour for which there is no demand among them, and brings back in return for it something else for which there is a demand. It gives a value to their superfluities by exchanging them for something else which may satisfy a part of their wants, and increases their employments."* He thus considers that its advantage consists in providing a market for

* Book IV, chap. 1, p. 195. M'Cullock's Edition, 1863.

the exports of a country. There are cases in which such a position is not altogether untenable, and these are chiefly where the exports consist of agricultural produce. As the amount of these articles which may be produced in any one year depends on other causes besides the will of the producers, it often happens that more is produced than the inhabitants of the country are willing, or even able, to consume; and in such cases it is an advantage to be able to dispose of the surplus abroad. In his entertaining work on Australia, Mr. Trollope tells us that, in consequence of the protective tariff adopted by Victoria, it often happens that an abundance of fruit is left to rot in Tasmania, which, if trade were free, would be converted into jam to supply the Victoria market. Yet, even in this case, the advantage to be gained by Tasmania would consist in what she was able to import from Victoria, and, if her superfluities were sent to Victoria without producing any return, she would be no better off than if it were wasted on the spot. No doubt the expression, furnishing a market, implies that something is obtained in exchange for what is sent to market, but the term superfluity implies that commodities are produced, not for the purpose of being sold, but unintentionally, and that some use has to be found for them afterwards. Even with agricultural produce this is only partially true, and when a trade has once been established between an agricultural and a manufacturing country, corn and cotton are as regularly grown in the former to supply the wants of its foreign customers, as cloth and steel are manufactured in the latter for a similar purpose. It is not because they have more cotton than they know what to do with that the people of Carolina and Georgia export it to England, but because they find that by doing so they can obtain various comforts and luxuries at less cost than if they produced them for themselves. In the case of manufactures, it is obvious that nothing is produced except with deliberate intention, and that it can only be an exceptional instance where a glut is relieved by foreign purchases. Englishmen engage in manufacturing goods for all countries because, by doing so, they can procure food and other things on more favourable terms than by producing them at home; and though to the manufacturer it seems that the advantage of English commerce consists in enabling him to sell his wares abroad, the advantage to the English people consists in the commodities which are sent to pay for their exports. If trade were stopped between England and foreign countries, there would be a great change in the direction given to her industry, but her capitalists would still be able to find a market for their products, and there would be no greater superfluity than at present. If her capital was as large as before, it would give employment to the same number of labourers, who would all be engaged in supplying the wants of native

consumers, and those who had formerly produced goods for exportation would have to produce such as had formerly been imported. Things would not be the same as before, for production would be carried on in some cases with greater, and in others with less, difficulty; but, as far as regards the facility of disposing of what had been produced, there would be no alteration.

The habit of looking at the question from the dealer's point of view has led, in our own time, to a curious inversion of the ancient belief. According to the latter it was best for a country that its exports should exceed its imports, because this was expected to lead to an influx of the precious metals; but of late years some writers have espoused the theory that the excess of imports over exports represents the gains made by those engaged in foreign trade. Even Mr. Rogers says: "The profit of foreign trade consists in the difference between the price at which the goods are bought and carried, and the price at which they are sold. A rough index of its amount is to be found in the difference between the money-value of the exports and imports of a country. The aggregate value of the latter is greatly in excess of that of the former. Thus, for example, in 1863-4-5, the imports of the United Kingdom were represented by the figures 249, 275, and 271; the exports by 197, 213, and 219. At first sight it would seem the people of this country bought more than they sold by 52, 62, and 52 during these three years. In fact, the exports paying for the imports, they bought the greater sum by the less; the difference, some deductions being made, being the profit on the foreign trade."* It will be seen that this argument assumes that all imports have to be paid for by exports, and, if this assumption be correct, the difference between the totals can only be set down to cost of carriage and profits made by the merchants. But what ground is there for this assumption? The period referred to is part of that which I have previously cited, as exemplifying the position of a country which receives tribute from other countries on account of rents and dividends due to its citizens; and though, of course, the statistics will lend themselves to either interpretation, it would be rash to assume that nothing is imported which is not paid for by exports. It is well known that large amounts both of landed property and of stocks and shares are held by Englishmen in foreign countries, and it is, to say the least, not prudent that an equal amount is held by foreigners in England. Mr. Rogers, perhaps, intends to allow for this circumstance when he adds the qualifying words of "some deductions," but this is hardly allowing sufficient importance to it. Commercial statistics furnish many instances

* Manual of Political Economy, 2nd Edition, page 247.

in which a country exports much more than it imports, and it would be absurd to infer that the difference constituted the loss incurred through foreign trade. Such an inference would not, indeed, follow from Mr. Rogers' reasoning, for the fact that foreigners had gained would not prove that natives had lost, but it might be plausibly urged that if the greater amount were only sufficient to pay for the less, the difference must have been lost by the merchants engaged in the trade.

While it is obvious that commodities which are exported must be sold at a higher price than in the country from which they came, it would be rash to assume that this difference is in all cases sufficient to account for the excess of imports; and it is always desirable to seek for some other explanation, which the mere statistics will not afford. M. de Lavergne when estimating the cost which the possession of Algeria entails upon France, seeks for information in a comparison of the exports and imports exchanged between the two countries, and finding that France exports 150,000,000f. more than she imports from Algeria, concludes that this represents the expenditure incurred by the French Government in maintaining its civil and military establishment in the colony. The inference is a legitimate one; but if it were assumed that the exports merely paid for the imports, we should have to suppose that the Algerian merchants made a profit of 300 per cent., since, by exporting goods to the value of 50,000,000f., they were able to import goods to the value of 200,000,000f. In what, then, does the advantage of foreign trade consist? The answer to this question is not far to seek. As the object of industry is to obtain wealth by the least possible labour, every system is advantageous to industry which promotes economy of labour. Foreign trade is beneficial to a country in so far, and so far only, as it enables the inhabitants to obtain what they require with less labour than they could otherwise do. It accomplishes this end in several ways. There are some commodities which can only be produced under certain conditions of soil and climate, and foreign trade enables them to be consumed in regions where they could not be produced. We have no means of measuring the advantage which is thereby conferred upon mankind. The trade which enables Englishmen to obtain cotton-cloth, confers on them a benefit which is none the less certain because we cannot measure the extent of it. If this trade did not exist, the people would be obliged to wear clothes made from flax, wool, or some other material, and it would be difficult to calculate how much more labour would then be required, and impossible to tell how much the comfort of the wearers would be diminished. There are other commodities which might be raised within a country, but which it is more convenient to import. England imports wheat from many different countries, and also produces some for herself.

We know what is the cost of the quantity actually produced, but we cannot tell what would be the cost of raising the much larger quantity which would be required if none were imported. It would then be necessary to resort to inferior soils, and the cost would be proportionately increased; but the extent of this increase cannot be predicted before the experiment is tried. In the sentence succeeding that recently quoted, Adam Smith points out another benefit conferred by foreign trade on the consumers of manufactured goods. He says that by securing a larger market for such goods, it enables a much greater division of labour to be established among the producers, and thus cheapens the goods for the natives as well as for foreigners. No doubt, Englishmen derive a real benefit in this manner from the extensive commerce which they carry on with all countries; but here again it is impossible to measure the amount of the benefit, for we do not know what the cost of manufactured goods would be if their sale was confined to England. It is enough for us to see that the advantage must be great, and that it consists in the saving of labour, although we cannot obtain any simple measure of its exact amount.

CHAPTER VIII.—INTERNATIONAL COINAGE.

ADVANTAGE OF AN UNIFORM COINAGE—PARIS MONETARY CONFERENCE. INTERNATIONAL COINAGE COMMISSION—THE FRANC AND THE SOVEREIGN—OTHER SCHEMES.

It has often been proposed that all nations should agree to adopt one uniform standard for weights, measures, and coinage; but though some progress has been made in this direction during the present century, there is no reason to believe that the object will be attained till several generations have passed away. Among the small class of scientific men who can, with comparatively little difficulty, adopt a new nomenclature differing from that in ordinary use, some progress has been made towards uniformity; and the metric system of weights and measures is, on account of its simplicity and convenience, commonly used by chemists and physicists in England and other countries where it is not used for the ordinary purposes of common life. A few years ago, instruction in the system was made a part of the curriculum of the English national schools, and some preparation has thus been made for its more general adoption, but all attempts to bring it into general use have hitherto failed. Nor is this strange, for, although it has never been denied that such uniformity, if it could be obtained, would be highly beneficial, yet the period of transition would be accompanied by much confusion and inconvenience. As regards coinage, which is the special subject to be treated of in this place, it is clear that a change in the standard adopted in any country would entail an enormous amount of labour in altering the innumerable accounts between debtors and creditors, and that the longer the change is deferred the more troublesome it will be if the country is one which is advancing in wealth and population. Great as are the difficulties to be overcome, it is not altogether hopeless to expect that the advantages to be gained by uniformity may be so vividly realised as to induce some of the leading nations of the world to reconcile themselves to such an alteration in their own systems as will bring them into harmony with one another. These advantages consist in the saving of labour, both physical and intellectual, which would be brought about in various ways. All who have had much to do with the comparison of the statistics of various countries know how much their labour is increased by the difference in the methods employed to denote

the same sum, and the confusion which arises when figures are given without the name of the coin being added. The international jury who were appointed to adjudicate the prizes at the exhibition of 1851 found it almost impossible to decide fairly on the merits of the different fabrics submitted to them, because the prices, which were an important item, were expressed in different currencies, and were applied to different weights and measures. When Cobden went to France to negotiate the commercial treaty, most of his time was occupied in calculating the rates of duty which must be imposed in each country in order to correspond with those enforced in the other, and though the difference of coinage was not wholly responsible for the trouble thus occasioned, it at least contributed to it. This diversity renders it necessary for travellers to exchange the coins of the country which they leave for those of the one which they enter, and it has been estimated that 4,000 persons earn a living by acting as money-changers. The expense of their maintenance is borne by the travelling public, who are thus mulcted of a small sum whenever they pass from one country into another where a different monetary system prevails, besides being subjected to the trouble and loss of time incurred whenever they get their coins changed. If uniformity were established, these 4,000 persons might work at some productive occupation, and the wealth of the world would be so much increased, whereas the present system of diversity benefits no one. In treating of the subject of foreign exchanges, the diversity of the coinages of different countries was mentioned as one of the circumstances which cause bills on a foreign country to be sold at a premium. The addition to the premium which is due to this cause is very slight, but in commerce a very slight addition to the price of an article often makes a great difference, and the number of commercial transactions between two countries may be much diminished by a slight impediment in the way of settling their accounts. If gold ingots are sent abroad, they will have to be assayed on their arrival, although the operation has been already performed in the country from which they came; because the banks which purchased them have not confidence in the honesty or capacity of foreign assayers, and the expense of the assay must be borne by the exporter of the bullion. If the two countries had a similar coinage, the two governments could easily come to an agreement to accept each other's coins, which is in effect to recognise the correctness of the assays made by the respective Mints, and thus the expense of a double assay would be saved. But it is not merely by increasing the difficulty of payment that diversity of coinage acts as an impediment to foreign trade. It not only renders it more difficult for merchants to pay for what they have purchased, but prevents them from

knowing where there is a favourable opportunity for making a purchase. If prices were quoted in all countries in coins of the same denomination, a merchant would be able, on reading the quotation, to tell at once whether the difference between the prices ruling at home and abroad was sufficient to compensate the cost of carriage.

But when the price is expressed in coins with which he is not familiar, the figures do not at once convey the idea of a profit to be made by transmitting the goods in question, and even though he may think that there is a chance of profit, he may not think it worth while to go through a troublesome calculation, the advantage of which is problematical. Merchants who deal with foreign countries are obliged, of course, to keep in their employ foreign clerks, whose business it is to make such calculations, and comparative tables have been provided for the purpose of abridging their labour as much as possible. All this labour would be saved if an uniform coinage were adopted by all nations, and though it would be difficult to say how many men would be able to devote their labour to some more useful purpose, it is evident that the saving would be considerable. It does not matter whether practice enables experts to perform such calculations with great ease as compared with persons who are not used to them, for however slight may be the labour involved in each calculation, the total number is enormous, and the amount of labour exerted must be considerable, and is wholly unnecessary. Merchants frequently find it necessary to send travellers abroad who are better acquainted with the matters relating to the commodity in which they deal than with the language or the coinage of the country which they visit, and the confusion arising from the difference of coinage furnishes a convenient excuse for any deficiency which may be detected in their accounts.* We find, accordingly, that those who are most earnest in advocating the adoption of an uniform coinage are philosophers who regard it as a means of reducing human labour to a minimum, and merchants who regard it as a means of extending foreign commerce. One effect of the diversity which at present prevails is, that gold and silver are coined much more frequently than they need be. When it becomes necessary to transmit a quantity of either of these metals from one country to another it is frequently done by means of ingots, and these ingots, it is pretty well known, are made by melting down coin, so that the different Mints of the world are employed in repeating work which has been already done. The imposition of a seigniorage would greatly reduce this waste of labour, but would hardly be sufficient to do

* See Mr. W. S. Jeffery's Evidence in "Report of International Coinage Commission," Q. 1,122, etc.

away with it altogether. If an uniform coinage were established, the whole, or nearly the whole work of coining would he performed in the countries which supply the precious metals; and the Mints of Europe would have little to do beyond issuing new pieces in exchange for old ones which had been worn by use, or, perhaps, turning out small coin in accordance with local requirements.

Such being the general advantages to be gained from the establishment of uniformity, it may be worth while to devote some space to the consideration of a scheme which has been recently proposed for approximating, if not attaining, to this desirable object. In 1865 a considerable step in this direction was taken by the conclusion of the celebrated Monetary Convention between the four Governments of France, Belgium, Switzerland, and Italy, by which they bound themselves to accept each other's coins as equivalent to their own, and fixed the weight and fineness of the pieces which each might thereafter issue. The effect has been that these four countries may almost be considered as one as far as coins are concerned, and all travellers are aware that a handful of silver coin received in any one of them is sure to contain pieces which exhibit every variety of image and superscription. Without abandoning the prerogative of coining enjoyed by every Government, these four States have voluntarily agreed to exercise it on such conditions as to secure the acceptance, throughout the area embraced by the convention, of every coin which may be issued in any part of it; and if this area could be extended till it embraced the whole world, the treaty would furnish an excellent model for an universal compact on the subject of coinage. To effect such an extension was the object of the International Conference which assembled in Paris in 1867 on the occasion of the Exhibition; and though the result has not been considerable, yet the meeting together of delegates from so many European and American Governments as were there represented, marks an era in the progress of the movement. The difficulty of inducing different Governments to adopt a common coinage was much diminished in the case of the four parties to the Convention by the fact that their respective coinages were already established on a similar basis, and the changes which had to be made were rather in matters of detail than of principle. All these countries maintained, and still nominally maintain, a double standard, and all experience similar inconvenience from the cheapening of gold consequent on the Californian discoveries. All of them attempted to check the disappearance of the silver coin by various means, and the Convention assimilated their policy by fixing the fineness of the smaller coins at 835 instead of 900, as it had formerly been, while it left their weights unaltered. As, however, the silver 5-franc piece still retained its former fineness, these countries were exposed to the

danger of losing their gold coin whenever anything occurred to reduce the value of silver more than that of gold. Such an occasion was afforded by the expulsion of silver from the German coinage when the price of silver suffered a great fall; and these Governments found it necessary in 1874 to conclude a supplementary convention limiting the amount of silver which might be coined for some time to come, and thus, for a time at least, abandoned the system of a double standard. The hopes which have been entertained of the accession of other countries to the Convention have not met with much satisfaction. Although treaties to this effect have been concluded with Greece, Austria, and Spain, each of these countries still retains its old coinage, and though the first of them has agreed to use francs instead of drachmas, the agreement has only been carried out in name, and not in fact. The notes issued by one of the principal banks of Greece have their amounts expressed in francs, but no such coins as francs, or multiples of francs, can be obtained by presenting the notes. In Spain, the introduction of French coins only increases instead of diminishing the prevalent confusion, for as these are of nearly, but not quite, the same value as Spanish pieces, an occasion is afforded for many mistakes and some cheating.

The first question which the Conference had to decide was, whether a totally new system should be introduced, or whether an attempt should be made to bring the existing systems into harmony. The superiority of the latter plan was so obvious that it was at once adopted, and the labours of the Conference resolved themselves into settling the method of carrying it out. At first sight it would seem to be a very easy matter to assimilate the coinages of nearly all the countries of the world. They are based upon one of three units—the pound, the dollar, and the franc —and as the first is very nearly equal to five of the second, and the second equal to rather more than five of the third, it would seem that all that is necessary is to make such slight alterations as would establish these exact proportions, and to let the different coins circulate together. Such, in fact, was the scheme which was approved at the Conference, where it was proposed that all Governments should agree not to issue any gold coins which did not correspond to the French 5-franc piece, or to multiples of five francs. If this plan were generally adopted, the different countries might still continue to reckon in dollars or pounds; but as the former would be exactly equal to five francs, and the latter to twenty-five francs, the gold coins of various countries might be used to pay debts in places where they would be called by different names. Such a state of things would be very far from realising all the advantages which complete uniformity would confer, but it would be much

more convenient than that which prevails at present. As prices would be differently expressed in different countries, it would still be necessary for merchants to go through a troublesome calculation in order to compare foreign with domestic prices. If a round sum were mentioned, it would only be necessary to multiply or divide by five or twenty-five, as the case might be, but as each country would still retain its own silver coin, a further calculation would be required when any fraction of less than five francs was mentioned. Travellers, however, would find a great convenience in being able to take gold coins from one country to another without the trouble of changing them, and the labour of re-coining gold which had been already stamped by foreign Mints would be dispensed with. But although the change appears easy, it is perhaps its very smallness which prevents people from adopting it. The income-tax became more unpopular in proportion as its amount was diminished, because the smaller the amount was the more keenly the annoyance which its collection entailed was felt. So it is with the change in the coinage. The amount of gold in a sovereign is equal to that which in France is coined into 25f. 22c., and in order to bring the sovereign into harmony with the French coinage it must be made equal to 25f. exactly. If the value of the sovereign were thus reduced, it would be necessary to re-adjust every outstanding account between debtor and creditor. Every fundholder, every possessor of railway debentures, every mortgagee, would be entitled to a small nominal addition to the interest which he received in order to compensate for the change in the coin, and the labour involved in these calculations would be immense. Where the amount was too small for the proportional addition to be made in any coin which circulated in the country, one of the parties concerned must submit to a loss which, although small, would be inconvenient to the poor people concerned. All this inconvenience might, however, be avoided in the case of England, by a plan to be considered further on. But, in any case, some change in our coinage would be unavoidable, and would have the disadvantage always attendant on an innovation. As the French coinage already numbers gold pieces of 5, 10, and 20f., it was determined at the Conference that no pieces should be issued which were not multiples of 5f., and this would entail the abandonment of the half-sovereign, which is equivalent to 12f. 50c. There is already a 10f. piece, and a 15f. piece may hereafter be issued, so that a half-sovereign being intermediate between the two, would be perpetually liable to be mistaken for the one or the other; and this was the chief reason which led to its condemnation at the Conference. If, however, English accounts were still kept in pounds and shillings, it would be rather inconvenient to have no gold coin equivalent to half the unit

of account. This inconvenience would be done away with if it were decided to make a more sweeping change, and to substitute francs and centimes for pounds and shillings in all accounts; and such a change is very desirable for another reason besides the advantage of uniformity, although, of course, it would necessitate a great deal of labour in the first instance. It would bring the advantage of a decimal coinage, which would save all the labour of division which must now be gone through whenever a column of shillings or pence has been added up, and which, however readily it may be performed by practised accountants, must yet amount to a large aggregate. On the other hand, the adoption of so small an unit as the franc would considerably increase the labour of writing where large sums are concerned; where the amount is expressed in figures, the increase is not worth taking into account; but where it has to be written in words, as must always be done in cheques and bills, the longer time required for the purpose would be a serious objection. This objection would apply with less force to the introduction of dollars and cents., which would equally secure the advantage of a decimal coinage; and perhaps a still better plan would be to give a new name to the sum of 100f., and to keep accounts in these units in francs and centimes. The large transactions which have now to be recorded in civilized countries render it desirable to use a larger unit than even the English pound, and a 100f. would be equal to four of these, and would be perfectly compatible with the existing French coinage. It is to be hoped that national vanity will not interfere to prevent one nation from adandoning its own system in favour of a foreign one, and the English system not being a decimal one, ought, in any case, to be abandoned. The great simplicity of the French system has induced me to employ it throughout this work for expressing weights, measures, and coins. The superiority of the French system is nowhere more evident than where we have to deal with the coins which are all fixed so as to correspond with easily-remembered weights; while the fineness is expressed by the simple method of giving the number of parts of fine gold in each thousand of the whole weights. The standard adopted in France, and, indeed, in most countries, is that of 900 parts of fine gold and 100 of alloy, while that adopted in England is 917 of fine gold and 83 of alloy, which is called in England 22 carats fine. It would be necessary for the fineness of the sovereign to be reduced to 900 in order to assimilate it to the French coinage, and the increase of the alloy being greater than the diminution of the gold, the new sovereign would be somewhat heavier than the old one. So slight a change would not make any material difference in the durability of the coin, and no objection raised on such a score would be entitled to much consideration. Some people

may suppose that it would be inconvenient to admit into circulation gold coins of so small a size as 5-franc pieces; but this inconvenience cannot be great, for if the English do not like to use such pieces, they need not ask for them at the banks or at the Mint; and those which happen to be brought over by foreigners will soon be sent abroad again. Switzerland is one of the parties to the convention, and 5-franc pieces are therefore allowed to circulate within it, but as the Swiss are not partial to these coins their circulation is but small. After all that can be done by treaties to establish uniformity, the effects of inveterate custom may still remain to deprive traders of the full advantage which might be obtained from it. Governments may determine what coins shall be allowed to circulate within their dominions, but they cannot compel private individuals to keep their accounts according to the reckoning prescribed by the coinage. The public accounts may be kept according to a new standard, but the old one may still be retained by private merchants in spite of the trouble required to calculate prices when the coins do not correspond with the system used for accounts. Sixty years have gone by since the guinea was replaced by the sovereign, and yet we know how many are the cases in which guineas are still paid where sovereigns would certainly be used if no such coin as the guinea had ever existed. In other countries the adherence to old customs has been carried to a much more inconvenient extent. In Newfoundland, for instance, accounts are kept in pounds and shillings, but the nominal pound is only equal to 16s. 8d. in actual coin, and a sovereign is sufficient to discharge a nominal debt of 24s.; so that whenever coins are transferred, one-fifth has to be added to their amount when the transaction is entered in an account-book. Down to 1873, the accounts of the Bank of Hamburgh were kept in marks, although no such coin had circulated in Hamburgh or any other part of Germany for centuries; if, indeed, it had ever circulated at all. At Ypres, too, accounts are still kept in money which does not correspond to any existing coin, although in that town, as in the rest of Belgium, all payments are actually made in francs or other coins based upon the franc. A similar difficulty has been experienced in establishing uniformity of weights and measures. A clause of Magna Charta enacted that there should only be one weight and one measure for the whole of England, but although many attempts have been made to enforce this desirable uniformity, it has not yet been established. Even now, the hundredweight used at Liverpool is not the same as that used in London, and the modes of weighing coals are different in different colliery districts. It would be rash, therefore, to expect complete success for any attempt to establish an uniform system of accounts by force of law; but even partial success would confer a great benefit on the commercial community.

In order to effect a complete union among all countries, it is necessary that all should agree to adopt a common standard. The question of the best standard was fully considered at the Conference, and a single gold standard was recommended for general adoption. This is the system which already prevails in England, but the double standard is still maintained in the countries which are parties to the Monetary Convention, and the incompatibility of the two systems was assigned by the English Government as a reason for declining to enter into the Monetary Union. As long as the double standard is maintained there is always a danger of one of the two precious metals giving place to the other, and silver would by this time have expelled gold from the Monetary Union if legislative measures had not been adopted to prevent it. A country which has long been accustomed to a gold standard is naturally unwilling to submit to the inconvenience of using so bulky a metal as silver in all large transactions, and the English Government was justified in refusing to expose its subjects to it. If England had joined the Union, but at the same time stipulated that it should not be required to accept silver coin in larger amounts than fifty francs, the advantages of uniformity would have been lost whenever the price of silver fell below a certain level, and it could not then be foreseen that such an event would be followed by a partial abandonment of the double standard on the part of the Monetary Union. It is much to be regretted that the abandonment has not been more complete, and that so eminent an Economist as M. Wolowski should have come forward to defend the system at the very time when there was the best chance of overthrowing it. Throughout his "Question Monetaire" he constantly repeats that the double standard, to some degree, protects a country from a change in the value of money. He compares it to the use of brass and steel rods in the gridiron pendulum.* If all the rods were made of the same metal, they would all expand and contract to the same extent as the temperature rose and fell, and the rate of vibration would be disturbed. But different metals are affected in different degrees by changes of temperature, and the disturbance is thus reduced to a minimum by the counteracting influence of the different rods. He tells us that, in the same way, the repeated substitution of one metal for the other preserves the value of money at the same level, and points to the smallness of the variation in the proportion of the two metals to each other as a proof of the steadiness of the value of money. But although the maintenance of a double standard has undoubtedly had some effect of this kind, it has been very small in comparison with what has been brought about by more potent causes. In an earlier chapter I have endeavoured to show that the value of gold has fallen 25 per cent. since

* "Question Monetaire." Paris, 1869. Page 12.

the Australian discoveries, while the utmost extent of the fluctuation in the price of silver has not been more than 4 per cent. Those who define value as ratio of exchange are prone to imagine that they have proved that there has been no great change in the value of an article when they have shown that it will purchase nearly the same quantity of some other article; but if the definition which has been employed throughout this work be adopted, there can be no danger of falling into such a mistake. Comparing gold and silver with labour, we see that a given quantity of either metal will now exchange for about three-fourths of the quantity of labour which it could formerly command, and that, therefore, both of them have fallen in public estimation; or, in other words, that their value has fallen. The fall would have been greater if all countries had adopted a single gold standard before 1848, but the difference is so inconsiderable as hardly to be worth taking into account. If this difficulty of a difference in the standards had been removed, one great obstacle to the adhesion of England to the Monetary Union would have been cleared away, and the accession of so important a commercial nation is almost essential to the success of the movement. One of the reasons put forward in the United States for declining to join the Union is, that so large a portion of American commerce is carried on with England that it would be better to wait till England has set the example, and not to incur the trouble of readjusting their monetary arrangements with their most important customer.* This reason may be no more than a convenient excuse for postponing a troublesome change, but it is to be regretted that the conduct of England should furnish even an excuse for delay. The greater the number of countries which join the Union, the greater becomes the inducement to other countries to join it; and if England had joined it, the Union might have been expected to grow larger and larger like a rolling snowball. Its backwardness has not only furnished to the United States an excuse for doing nothing, but has encouraged Germany in adopting the singular course of completely revolutionising its currency without assimilating it to that of any other country. The States which now compose the German Empire formerly possessed several different systems of coinage, which were reduced to a tolerable uniformity by an arrangement concluded in 1857, which established a silver standard and three systems, based respectively on the Austrian florin, the Rhenish florin, and the Prussian thaler. The exclusion of Austria from the Confederation reduced the number from three to two, and complete uniformity was

* See Mr. Musgrave's Evidence in Report of International Coinage Commission, Q. 552.

afterwards established by a law which came into force at the commencement of 1875, establishing a gold standard, and making a new coin, the mark, the basis of the coinage. The inconvenience of a transition from a silver to a gold standard proved to be considerable, but it was submitted to for the sake of obtaining a system more in accordance with those of other civilized countries, and it is astonishing that a government which was bold enough to adopt such a course should have missed such an opportunity of effecting a thorough union between its own and a foreign system the merits of which are beyond question. It would have been comparatively easy for Germany to adopt the French system, which it could have done with all the more consistency as one of the reasons put forward for the change was that it was necessary in order to receive payment of the French war indemnity. Instead, however, of doing so, a new coin, the mark, was issued, very nearly, but not exactly, corresponding to the English shilling; and a 20-mark piece was coined, which, while too small to be equivalent to the sovereign, is so nearly of the same size that it might easily be mistaken for one. The mark was adopted because it was $\frac{1}{3}$ of a thaler, and a simple division by three was all that was required to bring old accounts under the new reckoning; but when it is considered how much labour must have been gone through, even as the case stands, and how great was the confusion already existing in Germany, where the coins of every country found a ready circulation, it does seem that the small additional trouble which the adoption of the franc would have caused, would have been far outweighed by its subsequent advantages. Already there were the English sovereign, containing 7.32 grammes of fine gold, and the United States' half-eagle, containing 7.52 grammes; and to these was added the 20-mark piece containing 7.16 grammes, while about the same time the Japanese Government took the opportunity of reorganising its coinage to issue a new 5-yen piece, with 7.5 grammes of fine gold. The 25-franc piece, which was proposed at the Monetary Conference, would contain 7.26 grammes of fine gold, and is thus intermediate between the German and the Japanese pieces; and if it had been already adopted by England, France, and the United States, it would have been almost too absurd for the German Government to issue a new coin so nearly, and yet not quite, resembling it. The Japanese coin was probably intended to circulate along with the American half-eagle, and the resemblance is close enough for it to do so; but if the half-eagle had been already replaced by the 25-franc piece, so intelligent a people as the Japanese would not have gone out of their way to establish diversity.

When the labours of the Paris Conference were concluded, the French Government communicated the result to all foreign powers, and requested

them to state whether they were willing to accede to the proposed arrangement. The English Government, before giving a final answer, appointed a Royal Commission to report on the subject, and the Blue Book which records the result of the labours of the Commissioners is a valuable repertory of the arguments on both sides of the question and of the facts, a knowledge of which is useful in deciding it. A study of the evidence taken by the Commissioners affords the best possible means of realising the advantages which would follow from uniformity, and shows how much favour the movement has already found among the merchants who are the most interested in its success. Although the witnesses were unanimous in desiring uniformity, they were not all in favour of adopting the particular method of obtaining that object, the feasibility of which the Commissioners were deputed to consider. The question before them was whether the sovereign should be altered so that its fineness should be 900 instead of 917, and the quantity of pure gold which it contained reduced from 7.32 grammes to 7.26 grammes, and to this question several of the witnesses gave a negative answer. Mr. Newmarch's evidence perhaps affords the best specimen of the views of this party, and it must be admitted that proceeding from his premises, his conclusion is justifiable. He assumes that the value of the sovereign will be reduced in proportion to the diminution of the gold; that is to say, by about 22 centimes or 2d.; and he dilates on the trouble which would be caused by the necessity of calculating the small additions which must be made to every annuity and dividend, and by the disputes to which such a readjustment might give rise. He points out that the proposed change would not, after all, bring complete uniformity, and considers that the advantages which partial assimilation would confer are not sufficient to counterbalance the inconvenience of a change. His evidence, and that of other witnesses who spoke to the same effect, had so much influence with the Commissioners that they reported against the change, and the Government, acting on their recommendation, declined the proposal of the French Government. This was in 1868, and no further attempt has been made to reopen the question. Yet it was pointed out by some of the witnesses that the necessity for a series of troublesome calculations might be obviated by a simple plan which would maintain the sovereign at its former value though it contained a smaller quantity of gold. This plan, which was alluded to above, is simply to impose a seigniorage so that the value of the coin may be as much raised by the Mint charge as it is reduced by the abstraction of gold, and may thus remain the same as before. A kilogramme of gold 900 fine is now coined into 122.9 sovereigns, and, under the new arrangement, would be coined into 124 sovereigns. All that is necessary to preserve the value of the

sovereign at the same level as before is to enact that a person who brings a kilogramme of such gold to the Mint shall only receive 122.9 of the new sovereigns instead of receiving the whole number which are coined out of his gold. Of course, in all such discussions it is assumed that the value of gold is constant, and no one supposes that the imposition of a seigniorage can give steadiness to the real value of coin when that of the metal of which it is composed is subject to fluctuations. All that a seigniorage can do is to fix the price of gold measured in gold, or, in other words, to fix the proportion in which coin and bullion shall exchange for each other. The English Government does not guarantee its subjects against all changes in the value of money, but it does require that debts shall be discharged by means of a definite quantity of gold; and it would not commit any breach of faith if, while reducing the quantity which a debtor is bound to pay, it at the same time provided that this smaller quantity should be worth as much as the larger quantity would have been if no change were made. By the imposition of such a seigniorage an importer would be forced to give as much bullion for one of the new sovereigns as for one of the old ones, although the new one would contain less gold. The price of bullion would be somewhere about 3,070 francs the kilogramme, instead of 3,095 francs, as at present, when no charge is made at the Mint, and nothing but the small charge of about 5 francs per kilogramme is made by the Bank. Such a seigniorage, being very little more than sufficient to defray the expenses of coining, would not hold out any great temptation to private coiners; and, as it would therefore be impossible for the holders of bullion to get it coined except at the Mint, the market price would conform to the Mint price, which would be nominally the same as before. No one, therefore, who received one of the new sovereigns as payment of a debt of one pound would have any right to complain, for it would purchase the same quantity of bullion as one of the old ones would now do, and whether the value of gold fluctuated or remained stationary, the possessors of coin would be in the same position as they would have been if no alteration had been made. As they would not be able to obtain by melting down coin so large a quantity of bullion as they could before, it might be provided, as has been proposed, that the Bank should undertake to give bar-gold in exchange for sovereigns at the rate of a kilogramme for 122.9 sovereigns, which would enable those who happened to require bullion to obtain it on the same terms as before, without the necessity of melting down coin. This function is already undertaken by the Bank, and as there would be a slight difference between the buying and the selling price, it would continue to derive a profit from this source. After describing this proposal, the commissioners rejected it as unsatisfactory on the following

grounds :—"If the value of the new coin containing 112 grains of fine gold is to be maintained as equal to that of the existing sovereign containing 113 grains, by the power which the holder of it is to have of demanding from the Mint or the Bank of England in exchange for it 113 grains of fine gold in bar it is obvious that the new coin becomes only a token-coin, the value of which is maintained by its convertibility. It ceases, however, to retain its quality of being the standard of value ; and, in fact, 113 grains of fine gold in bar are substituted for a coin containing that quantity of fine gold as the standard pound and measure of value in this country. The reduction of the value of the sovereign and pound to the present value of 25 francs is essential to the adoption of the recommendation of the Paris Conference ; and if this reduction is made, we are of opinion that compensation must be given to the holders of obligations expressed in terms of the existing currency, and hence arises the necessity for a readjustment of all statements of account and for many very complicated arrangements." (Report, p. 13.) What the Commissioners mean by a token-coin is not quite clear. A token is usually understood to be a symbol of faith pledged, which will be kept however much the material symbol may have been defaced or mutilated. Silver coins in this country may be considered as tokens, for they are always received at their full nominal rate however much they may have lost by wear. Bank notes, too, may be considered as tokens, for they will be honoured even though reduced to half their size, if the authorities of the issuing bank are satisfied that no fraud has been committed. Such would not be the case with gold coin if the proposed scheme were adopted, for they would still be refused currency when reduced below a certain weight unless some alteration were made in the law. The Commissioners apparently used the term "token" to denote a coin whose convertibility causes it to be worth more than its weight in bullion ; and, as a mere question of names, this departure from established usage would be insignificant. But by a curious process of reasoning they seem to have satisfied themselves that such a token cannot be a standard of value, and while they hold that after the change the standard would be 113 grains of fine gold, they tell us, in the same breath, that a person who receives a coin which is equal in value to this quantity suffers an injury because he does not receive that actual quantity. They do not deny that the power of demanding 113 grains of gold in exchange for a sovereign will make the value of the coin equal to that of that quantity of bullion, but they nevertheless think that creditors ought to be compensated for receiving a smaller quantity of gold than that which they lent. The State has enacted that a certain quantity of gold is necessary in order to discharge a given debt, and has

no right, in the Commissioners' opinion, to make any change in the reckoning. There was a time when it was of some importance to impress upon governments the propriety of maintaining the weight and fineness of the coin in accordance with established usage, but at the present day there can be no reason to fear that the English Government will debase the coinage in order to escape from a portion of its liabilities. The Commissioners might remember that the sole reason why such debasement is objectionable, is, that it compels debtors to give a greater value than they have bound themselves to pay, and it is strange indeed to make this a reason for compelling creditors to receive less than they have a right to because the weight of the coin has been altered.

The inability of the Commissioners to admit that the quantity of gold in the coin could be reduced without a readjustment of all pecuniary engagements was the principal, if not the sole reason for their rejecting the scheme, and their decision is the more to be regretted because the imposition of a seigniorage is highly desirable in this country, quite apart from the advantages of assimilating the coinage to that of other countries. Its imposition, if accompanied by a corresponding reduction in the contents of the coin, would afford a favourable opportunity for undertaking what has for some time been urgently required, a reformation of the gold coin. Mr. Jevons, who has given considerable attention to the subject, and the results of whose investigations appear in his evidence before the Commission, and in a paper in the journal of the Statistical Society for the year 1868, has come to the conclusion that about 30 per cent. of the gold coin have already been reduced below the minimum weight at which they are allowed by law to circulate. This state of things causes considerable loss to country bankers, and occasional annoyance to other persons who happen to come into possession of light coin. To call in all the light pieces and to give the holders new ones in exchange would inflict considerable expense on the Government; but the reduction of the gold in the coin affords an opportunity for effecting the operation not only without loss but with profit. It appears from Mr. Jevons' calculations that 70 per cent. of the existing sovereigns are too heavy to circulate as 25-franc pieces; that 25 per cent. are of the right weight, and only 5 per cent. too light. The profit which would be derived by the Mint from melting down the heavy pieces would be more than sufficient to pay the expenses of the new coinage and the withdrawal of the light coin from circulation. The subsequent maintenance of a seigniorage would prevent the future melting of the coin, and would furnish the Government with a fund for bearing part, at least, of the expense of giving new coins in exchange for worn ones if such a policy should be decided upon.

There is a question connected with this subject which many people have been puzzled to answer, and which is sometimes put in such a way that it is impossible to answer it. A sovereign contains as much gold as 25f. 22c., and, therefore, in a country where neither English nor French coin circulate, it would, if bought as bullion, fetch the same price as 25f. 22c. in French coin. We therefore say, and say correctly, that the sovereign is equal in value to 25f. 22c. Under the new scheme it is proposed that a sovereign shall be made exactly equal to 25f., and shall be received in payment of that amount both in France and England. The opponents of the change say that the value of the sovereign will be proportionately reduced, and endeavour to place those who would avoid this result by means of a seigniorage on the horns of a dilemma. The sovereign, they say, is now equal to 25f. 22c., but the new sovereign will be only equal to 25f.; and they ask, How is it possible for the new sovereign to be at the same time equal to the old sovereign, and equal to 25f., which are not equal to the old sovereign? If two things are unequal to each other, how can a third thing be made equal to each of them? It is obvious that to the question thus put no answer can be given, but there are two loopholes open for escaping from the difficulty. One is suggested by Mr. Hendriks in a paper included in the report above referred to (page 143). He tells us, that though the sovereign contains as much gold as 25f. 22c., it is not worth so much because it can be obtained from the Mint at a much smaller charge than 20f. pieces can be obtained from the French Mint. The actual charge made by the French Mint is only 6f. 70c. per kilogramme, which is hardly more than the charge made by the Bank of England, to which, and not to the Mint, bullion imported to England is almost always taken. But, according to Mr. Hendriks, so long a delay must be submitted to before the importer of bullion receives his coin, that a serious addition to the cost of obtaining coin is occasioned by the loss of interest during the time that the gold is kept at the Mint. Before 1850 this delay did not exceed eight days, but the Californian discoveries brought such an enormous amount of work to the French Mint, that it was found impossible to deliver the coin so quickly, and a decree was issued relieving the Mint from the obligation of coining more than 1,000,000f. a day. Between 1850 and 1857, the delay often amounted to more than two months, and calculating the rate of interest at 5 per cent. per annum, it would appear that the value of coin must thus have been raised 1 per cent. above that of bullion. One per cent. is very nearly the extent of the proposed reduction in the contents of a sovereign; and thus, if we follow Mr. Hendriks, we get out of the difficulty by supposing that the sovereign is at present equal to 25 francs, not to 25f. 22c.,

which contain as much gold as it does. Thus, both the old and the new sovereign are equal to 25f., but the latter is in more perfect harmony with the French coinage ; and if this view be correct, there is, of course, no occasion for compensation. Unfortunately, however, it appears from Mr. Seyd's "Question of Seigniorage" that this state of things no longer prevails, and that the French Mint has for many years past returned coin for bullion after a very short delay, so that nothing like one per cent. can be allowed for loss of interest. While the substitution of gold for silver was in progress, the Mint was heavily taxed, for the whole coinage required to be renewed; but now that the substitution has been completed, there is no extraordinary press of work at the Mint, and though the decree of 1850 is still in force, its provisions do not oppose any impediment to the public. We are thus constrained to admit that the old sovereign is equal to 25f. 22c., while the new one would only be equal to 25f.; but even this does not establish the conclusion that the two are unequal, for there is still another alternative, that the value of the franc will be raised when the new system comes into operation. If the English Government imposes a seigniorage it will be almost necessary for the French Government to impose one of equal amount if the coins of both countries are to circulate together. Otherwise, the Mint which makes the lowest charge will be required to do all the work, and the English seigniorage would become inoperative from the want of bullion on which to levy it. The matter would, no doubt, be arranged by treaty if at any future time England should consent to join the Monetary Union. If England charged a seigniorage, and France did not, the gold coins would still be of equal value in both countries, for a seigniorage does not raise the value of a coin when compared with other coins in circulation at the same place, but only affects the price of bullion in the country where it is imposed. If France, as might be expected, should impose a seigniorage equal to the English rate, the value of the franc would be as much raised as the weight of the sovereign was diminished, and 25f. being worth as much as 25f. 22c. were worth before, would be equal to the sovereign whose value had remained unaltered. It will be seen that though on this plan no readjustment of bargains would be necessary in England, yet, as the value of the franc would be increased, strict equity would require that French debtors should be compensated for the increased burden which would be laid upon them. The conclusion is inevitable, for it would be utterly inconsistent to make the imposition of a seigniorage a ground for rejecting the claims of English creditors, and not to admit it as a ground for compensating French debtors. The question is one which interests Frenchmen rather than Englishmen; but, although in strict equity

the claim is irresistible, we may see reasons why it is not likely to assume so much prominence as the similar claim which has been discussed in England. In the first place, the French people have already been forced to submit to a delay in coining, which has, as had been said, practically amounted to a seigniorage as high as the one proposed, and, at the time when this was the case, no compensation was given to debtors. In the second place, there will be no actual alteration in the French coin; and, as the law entitles the creditor to a certain quantity of gold, and does not provide that no change shall be made in the rules of the Mint, the letter of the bond will be adhered to if he still receives the same quantity of coin. However this point may be settled, it is evident that if the sovereign be unequal to the 25f. piece, the one cannot be substituted for the other without loss or trouble being imposed upon somebody; and it is to be hoped that somebody will consent to bear it for the sake of the general advantage to be derived from the change. A generation which has undergone a fall of 25 per cent. in the value of gold without any general revision of contracts, might consent to submit to an alteration of one per cent. in the value of the coin.

As the labours of the Paris Conference have resulted in the elaboration of a scheme which, if adopted, would harmonise the existing currencies of nearly the whole world, it is hardly desirable for the advocates of uniformity to set to work to invent a new system which is to take the place of all those which are now in use. M. Chevalier has proposed that the unit should be a coin containing ten grammes of pure gold, which he favours merely on account of its fitting in with the metric system. On a former occasion he objected to the abandonment of silver as a standard of value, because the silver franc consisted of exactly $4\frac{1}{2}$ grammes of pure silver, while the gold franc does not contain such an easily-remembered amount. Dr. Farr proposes to take as the unit a coin weighing 8 grammes, and consisting of gold 900 fine. It is to be regretted that the 25f. piece would not exactly correspond to this description, as one hundred and twenty-four of them would weigh a kilogramme—not one hundred and twenty-five, as would be the case with the coins proposed by Dr. Farr. A very slight alteration would be required to bring the pieces to this exact weight; but as the kilogramme would then be coined into 3,125 francs instead of 3,100 francs, the whole question of compensation would be reopened. Either of these schemes would deserve consideration if all nations were prepared to enter on a new course, but the difficulty of inducing them to make even a slight change is so great that little can be gained by preparing a scheme for a complete revolution. The advantages of a decimal coinage have often been dwelt on, and some schemes have been proposed for introducing it

into England without doing more violence than necessary to the existing system. That which has obtained most favour is known as the pound and mil scheme, by which it was proposed to divide the pound into 1,000 mils instead of 960 farthings, but to make no alteration in the value of the shilling or of any larger coin. This scheme would have had the disadvantage of disturbing the numerous small bargains concluded among the poorer classes, who would gain very little by the new arrangement. Mr. Musgrave, the Governor of South Australia, suggests* that a half-sovereign should be called a pound, and accounts should be kept in these and in shillings. All that would be necessary to bring old accounts into the new system would be to divide by two. Another scheme has been proposed which would leave the penny unaltered and raise the pound so as to be equal to 250 pence, or 1,000 farthings. This scheme, while it would not inflict much inconvenience on the poorer classes, and would in many respects be convenient to the whole community, would yet cause a great deal of trouble in recalculating all considerable payments, while it would not quite bring the sovereign into harmony with the American half-eagle, which would closely resemble it. It may be said generally of all these schemes, that, whatever their individual merits may be, none of them can compare with that proposed at the Paris Conference in any of the requisites for a great monetary reform.

* Studies on Political Economy, 1875, p. 42.

CHAPTER IX.—RATE OF INTEREST.

PROHIBITION OF USURY—INTEREST ON STOCKS—RATE OF DISCOUNT—STOCK EXCHANGE SPECULATION—FOREIGN INVESTMENTS.

In every country there has probably been a time when the lending of money at interest has been discouraged, either by law or by opinion. It is well known how the Jewish law prohibited the Jews from taking usury except from foreigners, who were not considered to be entitled to the same consideration as fellow-citizens. It is curious that when the Jews were scattered throughout Christendom they should have been enabled to carry on this very business by this exception in regard to foreigners, while the Christian Governments allowed them a virtual monopoly. It was sinful according to the opinions prevalent in the middle ages for a Christian to lend money on usury, and Christians were therefore forbidden to do so; but as the Jews were already damned on account of their creed, it was not thought worth while to prevent them from committing one sin more, and they were accordingly allowed to engage in the business. The monopoly which they thus enjoyed must no doubt have greatly contributed to secure them wealth and influence. Aristotle,* as is well known, considered that usury ought to be altogether prohibited as a dishonourable practice, and one which was altogether against nature. He considered it legitimate for traders to make a profit by supplying commodities to consumers, but he thought that merely lending money was not increasing the stock of commodities, but was making a profit at the expense of other people. He doubtless would not have objected to a person receiving money for the hire of a house, and yet the gain which is thus made is obtained at the expense of the hirer quite as much as the interest on a loan at the expense of the borrower. When a man borrows money, he generally spends it on commodities, and, by means of these, obtains a profit which enables him to pay the interest; and it can make no difference whether the purchase is effected by the lender or the borrower. In either case, what the borrower wants is the commodity, and he accepts money as the most convenient means of procuring what he requires. If he spends it in the purchase of a house, he will be able to let the house for an annual rent; and if he were not required to pay interest he would make a considerable profit, and would yet be able at any time to obtain by selling the house a sum sufficient to

* Politics, Book I., chap. 10 (Congreve's Edition).

repay the loan. The lender, on the other hand, having parted with his money, would be deprived of a similar opportunity of making a profit; so that lending without interest would be in effect giving away something in addition to the amount of the loan. Money does not breed money, but it is not therefore unnatural to make money bring in money, for it enables its possessor to buy plants or animals which will breed according to their kind, and the profit which may be thus secured being obtained at the lender's expense, there is no reason why the borrower should not compensate him for the sacrifice undergone. The prejudice which has always existed against money-lending is mainly due to the fact that those who engage in it seem to make a living by taking advantage of other people's necessities; and, as far as concerns the lowest class of these dealers, the opinion is probably well-founded. The money-lenders who send circulars to young officers and undergraduates, offering to lend money on personal security, cannot be actuated by a mere desire to obtain a living by supplying the wants of other people. It is clear from the way in which these offers are worded that they desire to tempt imprudent young men into extravagance in order that they themselves may obtain a profit by ruining their unfortunate customers, or by working on the feelings of parents or others who are interested in them. It is not, however, because they lend money, but because they try to tempt others to run into debt that they are justly regarded as a disreputable class of men. The same stigma, in fact, attaches to another class of men who tempt people to extravagance by supplying them with commodities on credit. The tallymen who induce the wives of miners to buy dresses and other articles on credit, promising that they will never importune for payment, and who then transfer the debt to a third party who sues for the money, are justly regarded as a public nuisance, who ought to be as far as possible discouraged by law. But the mere lending of money, or of money's worth to be repaid with an addition, does not in itself constitute an injury to anyone, but confers a benefit on both parties concerned. The debtor has to pay more than he receives, but the loan either enables him to secure a profit, or saves him from incurring a loss. In most cases where high interest is paid, the loan is required to avoid the necessity of selling commodities, and everyone knows how enormous is the loss consequent on a forced sale. When the goods of a bankrupt are sold by auction, it is thought a great piece of luck if they realise three-quarters of the usual price. By borrowing money for three months, a tradesman may avoid the necessity of such a sale, and even if he has to pay interest at the rate of 40 per cent. per annum, he will only lose 10 per cent. instead of 25 per cent. While, therefore, such an arrangement is profitable to the borrower, it is advantageous

to the lender, and need not bring in any extraordinary profit to those who carry on the business. The profit on a single transaction appears large, but there is a considerable risk in a business where unusually high rates are charged; and, in fact, the rates are made high in order that repayments by solvent debtors may compensate the losses sustained in cases where the debtors are insolvent or dishonest. The legal prohibition of usury tends rather to aggravate the hardships of the debtors, for it introduces further risk against which the lender must guard himself, viz., the loss inflicted by the legal penalty if the transaction is detected. They can only protect themselves by charging a higher rate; so that in this, as in so many other instances, the interference of the Government only injures those whom it is intended to relieve. A loan is a transaction which it is so easy to keep secret that it is practically impossible for a law against usury to be enforced; and, indeed, it frequently happens that the very government which forbids usury is obliged to borrow money at high rates from the very men whose business it seeks to annihilate. The facility of evasion applies equally to all laws for regulating the rate of interest, which, so far as they have any effect at all, defeat their own end. Money-lending must be carried on, and must, therefore, bring a profit to those engaged in it, and competition will insure that the rates charged will not be higher than is required to bring profits in the trade to the same level as in other trades, regard being had to its peculiar disadvantages. The law cannot enable the average borrower to obtain money on terms which are not profitable to the lenders, and on terms which are profitable he will always be able to borrow without the assistance of the law. If the legal rate be fixed above that which is usually charged, the law may remain harmless so long as it is inoperative; but whenever it becomes necessary to exceed the legal maximum, the debtors must suffer an additional loss in order to compensate the risk incurred by breaking the law. The distress occasioned by the commercial crisis of 1825 was, as Tooke tells us, much aggravated by the usury laws. At that time it was illegal to lend money at a higher rate than 5 per cent., and although it was commonly lent at higher rates, respectable establishments like the Bank of England did not venture to break the law. At the time of the crisis it was impossible for these banks to lend at 5 per cent. in sufficient quantities to supply the wants of borrowers, though they might have been able to do so at 7 or 8 per cent., and they were therefore obliged to refuse many applications. Those who were thus refused were not thereby enabled to obtain money on favourable terms, but were obliged to borrow at 30 or even 40 per cent. from a less scrupulous class of money-lenders, and, in the last resort, to sell their wares at a much greater sacrifice. A great alteration

was made in these laws in 1839, when commercial bills were exempted from their operation, and a further change was made in 1854, when mortgages were similarly exempted. This amounted to their virtual repeal, though there is still a class of cases in which the law endeavours to protect debtors against the consequences of their poverty. It still forbids pawnbrokers to charge more than 5 per cent. interest on their advances, and this last relict of the usury laws has met with the approval of Mr. Rogers, who speaks of it as follows :—"The law controls certain trades, regulating, for example, the hours during which public-houses may be opened ; determining the rates of interest which pawnbrokers may exact on pledges ; fixing the maximum fare which public conveyances can charge for the services which they render. In these and many other cases which might be cited, the Government is rightly occupied in protecting the weak against the strong ; in preventing the holder of a supply, the demand for which is urgent and temporary, from taking advantage of the position which he occupies." (Manual, p. 235.) Yet the same reasons which have been urged to show that the rate of interest on ordinary loans cannot be regulated by the State for the benefit of debtors, are equally applicable to the case of pawnbrokers. They, like other lenders, must charge such a rate as will bring them in an adequate profit, and their competition will, as in other trades, fix the rate at such a point as to bring in ordinary profit. If 5 per cent. were too low for this purpose, pawnbroking would not be carried on ; and, in point of fact, means are devised for evading the provisions of the law, strict as they appear. One obvious method would be for the pawnbrokers to advance a smaller sum than the goods are worth, and to take the chance of their not being redeemed ; and, to prevent this, the law requires that the goods, if not redeemed within 12 months, shall be sold by auction, and that the excess of the price which they fetch over the amount of the loan shall be restored to the person who pledged them. In fact, however, these persons very seldom exercise this right, and pawnbrokers, no doubt, make a considerable profit in this way beyond what the law intended that they should. They also make something by charging for the ticket which they give whenever an article is pledged, and by requiring the customer to take a number of tickets when several articles are pledged at the same time, although one would be sufficient. Other laws might be devised to prevent these evasions, but a law is of little use when those for whom it is intended have not the means or the inclination to put it in force ; and even if a law could be framed which it would be impossible to evade, it could only secure to necessitous persons the choice between pledging their goods on such terms as would make pawnbroking profitable, or going without accommodation of this

kind. In this latter alternative, those who would otherwise have pledged their goods would be forced to sell them, and, in so doing, would suffer a much heavier loss than they would have done if allowed to pledge them on such terms as could be obtained. The French Government does, indeed, meet the difficulty by establishing a pawnshop at its own expense; and, of course, a government institution can be carried on at a loss, and can confer some benefit on necessitous persons by giving them more favourable terms than they could otherwise obtain. But as the loss incurred through such an establishment must be made up out of the public taxes, the burden is only shifted, and the pressure of heavier taxation tends to produce poverty to the same extent as relief is afforded by the pawnshop.

Bentham's "Defence of Usury" contains a most forcible, and, at the same time, entertaining exposition of the causes which render all attempts to regulate the rate of interest either mischievous or nugatory. He points out that where loans are recognised by men of business, they can obtain what they want at a heavy sacrifice without violating the law, by the simple process of selling securities at a low price on condition of receiving ready money. It is customary when stocks are sold to charge a higher price if payment is not to be made until the end of a fortnight or a month, and the difference between the credit price and that paid for immediate delivery varies with the rate of interest prevailing at the time. A holder of stock may sell it for ready money, and agree to pay back an equal amount a month afterwards at an increase of one per cent., in which case the loss incurred is as great as by borrowing at the rate of 12 per cent. per annum. Yet here the law can hardly interfere to dictate the prices at which particular stocks shall be sold for immediate delivery or at the end of the month. The commercial crisis of 1825 afforded an example of this mode of evading the law, for the divergence between the two prices of consols was remarkably great. Adam Smith thought that a legal maximum was not altogether undesirable, and that if it were not placed too low, it would affect no one except profligates and projectors, and that, by discouraging these classes, it would prove to some extent beneficial. Bentham replied that as to projectors it would be most dangerous for the State to impose any artificial impediment to their success, because every new invention must be brought in by a projector, and if no new inventions could be carried into practice, society would stagnate. He admitted that it must always be a hazardous undertaking to lend money to a projector, but he pointed out that though this was a sufficient reason why cautious people should not lend to projectors at the usual rate, it was no reason why those who chose to run the risk should not be allowed to do so, or why projectors should be

forced to pay more than sufficient to compensate the extra risk. He urged that society had already received an immense benefit from projectors, and that there was every reason to expect that the projectors of the future would not prove inferior, but would far surpass the projectors of the past. In our own time we have heard much of the evils consequent on the rapid extension of limited liability companies, but whatever ground there may be for these complaints, no one would wish to be without the railways, steamers, and telegraphs, which we owe to projectors; and all will admit that Bentham's expectations have been fully realised. As for profligates, Bentham urged that regulating the rate of interest would not prevent them from borrowing money as long as they had any security to offer, and that if they had no security they would not be able to borrow it in any case. If they could not borrow they could obtain money by selling whatever property they possessed, and the sacrifice which they would thus incur would be quite as great as if they had to pay interest on a loan. Even if they could not obtain money, they could, at least, obtain on credit the goods which they required, and, by paying much more than the ordinary price, would lose as much as if they had borrowed money in order to buy them. At the present time, the law courts endeavour to protect this class of persons by refusing to enforce the payment of what is considered excessive interest. No penalty is, however, imposed on the money-lender, and this interference is confined to cases where the youth and inexperience of the borrower are considered to place him at an unfair disadvantage in his dealings with the money-lender. Even in such cases, where the intention of the law is commendable, it can, after all, do very little. It can refuse to enforce any bargain, whether it be a loan at high interest, or the sale of goods at extravagant prices; but though it can relieve individual debtors, its interference introduces an additional risk into the business, and the whole body of spendthrifts must suffer in order that a few of their number may obtain relief by appealing to the law. In fact, the cases where such an appeal is made, afford abundant proof of the enormous rates which are charged to debtors of this class, 60 per cent. being no uncommon figure; and the law is powerless to prevent the ruin of those who can consent to borrow on such terms. When a government is not content to confine its interference to such cases, but endeavours to prescribe the rate which shall be charged to ordinary debtors, its impotence becomes still more apparent; and modern Turkey affords an example of a government which stultifies itself by fixing a maximum which it habitually exceeds when borrowing money to support its own extravagance.

When borrowers and lenders are left to arrange freely the rate of

interest at which the loan is to be negotiated, the only risk to be taken into account is that which is involved either in the business in which the borrower is engaged, or in his personal character. The element of risk can hardly be said to be completely eliminated even from the best securities, although this is almost attained in the case of the funded debts of the most wealthy and scrupulous governments. The difference between interest and profit is, that the former is a more or less definite per centage which one person or set of persons has agreed to pay to another, while the latter is an uncertain quantity which varies according to the success with which capital is employed in a particular business. Where the business is a small one, and is superintended by the capitalist who furnishes the means for carrying it on, it is not easy to determine how much of the total gains ought to be set down as profit on capital, and how much as wages of superintendence. But the development of joint-stock companies in our own time furnishes a ready means of distinguishing between these two elements, for the managers of companies receive regular salaries like the clerks and artisans who are employed, and the owners of the concern form a distinct class who receive the profits for no other reason than that they have provided the capital with which it is carried on. As it is the practice of companies to raise considerable sums by borrowing from the public by way of debentures, mortgages, and preference shares, their accounts furnish examples both of interest and of profit. The dividends on the ordinary shares constitute profit, which varies according to the ability and success with which the particular company is managed ; and the average rate of these dividends may be taken as a fair index of the rate of profit derived from private undertakings of a similar class. The dividends of the debentures and preference shares are interest on loans raised by the companies, and the rate paid by the wealthiest and most respectable companies may be taken to represent the highest that can be obtained by cautious investors who wish to derive an income from their money without breaking into the principal, and without incurring any trouble. It is clear that there must be some connection between the rate of profit and the rate of interest, for interest is profit minus risk ; but there are several circumstances which render it unsafe to assume that the difference between the two rates must always be the same. Although the same persons frequently invest part of their money in shares, and part in debentures or other loans, the advantages of these two modes of investment are viewed in a different light by different classes of investors, and there is a large class, that of trustees, who are almost debarred from purchasing shares in which any risk is involved. If the Government be firmly established, and, at the same time, known to be honest, it can

generally borrow money on more favourable terms than private companies, for these latter are always exposed to the chance of loss through some unexpected turn of trade, while a government, though equally exposed to such losses, can always resort to an increase of taxation to supply the deficiency. As a rule, of course, trustees are allowed, and often required, to invest in stocks the interest on which is paid or guaranteed by the government, and in a country where very large sums are at all times held in trust, there is always a large fund ready to be invested in a government loan. As a rule, the public debt of a country goes on increasing as its wealth and population increase, but the national debt of England is actually smaller now than it was 50 years ago ; and the United States and a few other countries have reduced their debts during the last ten years. If English trustees were still bound by the restriction formerly imposed upon them, which practically prevented them from investing in anything except the publicf unds, the price of these would probably be ten or twelve per cent. higher than it is now, for the sum to be invested has been constantly increasing, while the nominal amount of the national debt has been decreasing. If the larger sum must be spent in purchasing the smaller, it can only be effected by increasing the nominal price of the stock. In 1851, consols rose to par, and they would probably have remained at, or risen above, that point if the law on the subject of trustees had not been altered as was done in 1855. Trustees are not actually forbidden by law to invest in any stock which they may think proper, but before 1855 it was provided that if they invested in any other stock than the public funds, and the price should happen to fall after the investment had been made, the person for whose benefit the trust existed might require the trustee to replace the sum originally invested. Thus, a trustee who made such an investment ran the risk of being called on to make up out of his own pocket for any accidental fall in the price, while in the case of a rise he would obtain no benefit, but would be obliged to keep the stock in trust as before. This practically compelled trustees to confine themselves to the public funds, unless in exceptional cases, but in 1855 a considerable extension was granted to their discretion. They were then allowed to invest in railway debentures, mortgages, the stock of the Bank of England, and of the Bank of Ireland, and in any stock the interest on which was paid or guaranteed by the Government of any colony or dependency of Great Britain ; and by a more recent Act the stock raised by the Metropolitan Board of Works has been added to the list. This measure not only opened a much wider field for the investment of trust-money at the time when it was passed, but has furnished the means of increasing the purchasable fund simultaneously with the increase of the trust-fund

itself. The national debt is steadily decreasing, but many of the dependencies of Great Britain have increased their debts, and the continual extension of railways brings along with it a proportionate increase in the amount of railway debentures. The greater latitude which is thus afforded to the discretion of trustees has had its effect in diminishing their eagerness to buy consols, the price of which has seldom exceeded 95 since the Act was passed. Even at this price they yield little more than 3¼ per cent., and the fact that the British Government has been able to borrow 20 milliards at so low a rate is justly regarded as a striking proof of its high character and the general confidence in its stability. If it were to follow the example of other governments, and largely increase its debt, it would not be able to borrow at so low a rate; and, in fact, during the war with France, it was sometimes obliged to pay 6 per cent., although it had previously been able to borrow at little more than 3 per cent. in time of peace. The rates at which different governments are able to borrow money differ considerably from various causes. The late Mr. Dudley Baxter, who has taken some pains to investigate this subject, has given, in a paper in the journal of the Statistical Society for 1874, a table showing the different rates prevailing at the time, from which the following is extracted (the total amount of each debt being omitted).

Low Interest.	Interest per cent.
3 per cent. States—	
United Kingdom	3¼
Denmark	3¼
4 per cent. States—	
Holland	4·0
Belgium	4·0
German States	4·0
India	4·2
Canada	4·6
Australasia	4·6
Sweden	4·9
Moderate Interest.	
5 to 6½ per cent. States—	
Morocco	5 0
United States	5·1
Brazil	5·1
Russia	5·3
France	5·3
Natal, Cape of Good Hope, Ceylon, and Mauritius	5·7
Chili	5·7
Argentine Republic	6·3

High Interest.	Interest per cent.
6½ and 7 per cent. States—	
Portugal	6·7
Japan	6·8
Hungary	7·0
Austria	7·5
Columbia	7·4
Roumania	7·8
8 to 10 per cent. States—	
Uruguay	8·0
Italy	8·2
Cuba	8·2
Egypt	9·0
Peru	9·7
Ecuador	10·0
Turkey	10·7
Excessive Interest.	
Guatemala	14·5
Bolivia	15·0
Spain	16·5
Mexico	17·5
Costa Rica	22·0
Paraguay	25·0
Venezuela	25·0
San Domingo	—
Greece	33·0
Honduras	66·0

It is obvious that the enormous rates set down in the last division of the table cannot be long maintained, and, in fact, they all occur in the cases of defaulting governments; and the figures represent not the actual rate of interest paid, but the small value which the investing public attach to the promise of the government that it will pay what it has undertaken to do. The figures in all cases represent, not the nominal rate of interest on the principal of the stock, but the actual yield which an investor can obtain by purchasing the stock if the interest is duly paid. The divisions of the table are, of course, more or less arbitrary, and the slight rise or fall in the price of a stock would cause the government which issued it to be shifted from the region of moderate to that of low interest, or *vice versa*. Within a year after the paper was printed, the French 5 per cents. had risen above par, and this would be a sufficient reason for placing France among the countries where interest is low, although nothing had occurred in the interval to increase the confidence of investors, either in the stability or in the honesty of the French Government. It is, indeed, a most remarkable sign of the times, that although no country is more subject to revolutions than France, none of its many changes of government has been followed by any violation of public faith; but every party which has succeeded to power has scrupulously fulfilled the engagements of its predecessors. There have been great fluctuations in the prices of the French funds, and there have been times when the French Government has had to pay dear for a loan, but this has not being owing to any want of confidence, either on the part of Frenchmen or of foreigners, in its ability and determination to meet its engagements, but rather to the particular circumstances which made it difficult to lend the required sum at the time when it was wanted. During the war with Germany, it brought out a 6 per cent. loan at the price of 80 per cent., or, in other words, undertook to pay 7½ per cent. on what it borrowed; but the stock which was thus created rose to par soon after the termination of the war, and would doubtless have fetched a considerable premium had not the holders been exposed to the chance of being paid off at par. At the time when this loan was brought out, Frenchmen would have been as willing as ever to assist their Government, but the war brought so much distress upon them, that all of them who had any money were anxious rather to keep it by them in the shape of coin or notes than to invest it in even a good stock. Foreign capitalists, though they could hardly have doubted that the French Government would fulfil its engagements, were indisposed to invest largely in a stock which might be further reduced in price by future issues, and they accordingly required high interest to compensate them for the inconvenience and risk to which they submitted. A few

years before the war, the French 3 per cents. stood at 73, while during its continuance they fell to 50 ; and, according to Babbage, this would show that the rate of profit had risen from 4 to 6 per cent. in the interval. This, however, would be a very unsafe conclusion, for it can hardly be supposed that French capitalists could have made higher profits during a war which almost put a stop to business. The investing public were certainly able to obtain better terms for fresh investments, but this does not show that persons who were engaged in business were able to obtain a higher profit by raising their prices or by other means. The United States afford another instance of a Government which has been obliged to pay dear for the loan raised in time of war, but has been able to reduce the rate of interest after the return of peace. During the war, the Federal Government brought out a 6 per cent. loan at 70, or, in other words, had to pay 8½ per cent. ; but it has since been able to borrow at 5 per cent. Here, again, the high rate paid during the war was not so much owing to any want of confidence in the stability of the Government, for no one supposed that the Northern States, even if unsuccessful, would be unable to maintain their own independence, or would be forced to repudiate their debt, as was afterwards the case with the Southern States. The high rate was simply the consequence of the large draft which was suddenly made on the resources of the trustees and other persons who favour this class of investments. In order to take up the large amounts which were offered for subscription, it was necessary either to withdraw money from other investments, or to make fresh accumulations ; and, in either case, time was required for the process, and those who came forward to save the Government from the necessity of waiting required compensation for their own trouble and expense. This they obtained, partly by means of the high interest which they received, and partly by being enabled to sell at a higher price after the Government had ceased to raise fresh loans. It is so well known to all persons engaged in financial business that time is required for the public to "absorb" a loan, that a fall in the price of Government stocks can be predicted whenever a large loan is offered for subscription. We cannot, therefore, take the price of the public funds at any particular time as indicating the rate of profit, though it does show the rate of interest which the investing public can obtain. The Government can raise or lower the price of its stocks by reducing or increasing their amount, but it would be strange indeed if incurring increased expenditure and heavier taxation would raise the rate of profit. Portugal appears in the table as a State which borrows at the rate of 6.7 per cent. ; but if the table had been framed in 1870, the figure would have been 9 per cent. This fall is not owing to any fall in the rate of profit, but to an improve-

ment in the management of Portuguese finance. The payment of the interest on the debt was at one time somewhat irregular, and the reform of this abuse was naturally followed by a rise in the price of Portuguese stock. Mr. Baxter has noticed a somewhat curious fact concerning the degrees of credit enjoyed by different States, which is, that the countries of high interest lie within the same geographical area, Southern Europe and Central America; while the countries of moderate interest are found, for the most part, either to the north or south of this zone. He does not proclaim this as a rule without an exception, for the dependencies of Great Britain, wherever situated, partake to some extent in the high credit of the mother country; but it is certainly remarkable that Portugal is the only State in Southern Europe which does not seek in some way or other to defraud its creditors, and almost all Spanish-American Republics pursue a similar course. The heat of the climate is generally considered to foster indolence, and may be the remote cause of the apathy which the inhabitants of these countries display when required to make sacrifices in order to fulfil their engagements. The United States and Australia are countries in which the rate of profit is usually supposed to be high; yet, according to the table, they are able to borrow at a lower rate than France, which is not generally thought to be remarkable for high profits. It might be thought that the rate of interest on Government stocks is more liable to be affected by foreign purchases than the rate of profit, and, to some extent, this is probably the case; and some countries might be compelled to pay higher interest if all their creditors were natives. But, in fact, the stocks of Victoria have sometimes stood at a higher figure on the Colonial Stock Exchange than in London; and though this might not have been the case if the whole loan had been subscribed in Victoria, it yet shows that the colonists are content to receive a lower rate of interest than is required to satisfy English investors. There are many circumstances besides the rate of interest which influence the price of a Government stock. In the case of the British funds, the dividends could not till recently be received without the stockholder either submitting to the trouble of going in person to the place where the dividends are paid, or the expense of a power of attorney to enable some one else to receive them. Of late years, many foreign governments have adopted the practice of issuing bonds with coupons attached, and undertaking to pay the interest to anyone who presents the coupons at the appointed time and place. Each of these modes has it advantages and disadvantages. The English practice renders it more troublesome to obtain the dividends and to transfer the stock, for the same formalities have to be gone through in a case of a transfer as in that of receiving dividends. The foreign practice greatly

facilitates both these operations, for all that is necessary is to hand over the bond or the coupon to some one else; but this very facility increases the chance of the interest being received by those who are not entitled to it, and the formalities required in England are a valuable safeguard to the holders. It is usual for bondholders to intrust their bonds to their bankers, who undertake to present the coupons as they become due, and cases have occurred, though they are happily rare, in which bankers in embarrassed circumstances have abused the confidence reposed in them, and have made away with bonds thus entrusted to them. This could not be done in the case of the British funds, and the foreign practice also exposes the bondholders to a loss when the bonds are accidentally mislaid. A holder of British funds has his name inscribed in the book of the debt, and his title cannot be disputed; but as foreign governments only undertake to pay the bearer of a particular piece of paper, they refuse to pay when the paper is not forthcoming. These governments frequently undertake to pay off a loan by instalments, and, in order to secure impartial treatment for all their creditors, an annual selection is made, by lot, of the bonds which are to be paid off. The bonds are all numbered, and the numbers which happen to be drawn are advertised, but it sometimes happens that a bondholder is not aware that his bond has been drawn, and he continues to present the coupons as before. When the fact is discovered, the Government pays it off, but deducts the amount of interest which has been paid in error; and though there is much to be said in defence of this practice, it is at least illiberal, and is inconvenient to the bondholder. Although such cases may be very rare, the possibility of their occurrence is enough to deter cautious people from investing in these bonds so readily as they would do in stocks, in connection with which no such losses can occur. The possibility of the loan being paid off at par is a contingency which must always be kept in view by investors, and the apprehension of such an event tends to keep the price of the stocks which bear high interest lower in proportion than other stocks, which are similar in every other respect, but bear lower interest. Thus, for instance, when the French 5 per cent. rentes were at par, the 3 per cents. were at 63 or 64, although 60 would have been the proportionate price, the security being identical. The 3 per cents., though they brought in lower interest on the money invested, yet offered a better chance of making a profit by subsequently selling out, for there was a possibility of gaining 36 francs on every 64 francs invested, while any considerable rise in the price of the 5 per cents. might induce the French Government to propose to lower the interest, and thus compel the holders either to submit to a loss or to find a new investment. The

times at which dividends are paid have some slight influence on the price of stocks. As a rule, these are paid half-yearly, but the French Government prefers to pay every quarter, and, in many respects, this is a more convenient practice. The price naturally rises as the time for the payment of a dividend approaches ; and this goes far to explain the difference which may be noticed between the prices of stocks issued by the same Government, and bearing the same interest, such as consols and reduced 3 per cents. It, however, frequently happens that the latter of these stocks is cheaper than the former, even when it will produce a dividend within a shorter time ; and this apparent anomaly is said to be due to the fact that the amount of the whole stock is smaller, which renders it somewhat less certain that a purchaser will be at once forthcoming when a holder wishes to sell. If, leaving these details, we enquire what is the cause of the rate of interest, it will appear that it is a remuneration for abstinence. Money is not capital, but a possessor of money can obtain capital, and employ it in productions, and can thereby obtain a larger income than by unassisted labour. If he consents to forego this advantage, and lend his money to a government, he requires some compensation for the possible gain which he has sacrificed. It need not be so much as he would have made for himself, for it will be obtained without trouble, and, in the case of a scrupulous government, without risk. In the case of trustees, it is possible that their funds would be entrusted to the Government even if no interest were paid upon them, for they would be relieved from the risk of losing what had been entrusted to them. Bankers and other persons are obliged to keep large sums in the Bank of England without interest, aud a stable government might, to some extent, make itself the custodian of the money of its subjects without giving them any other advantage than security. But when a large loan is required, an appeal must be made to persons who would be able to obtain a profit by employing their money otherwise, and to do this successfully some interest must be offered them. What the rate will be depends upon the amount which the government desires to borrow, and on the resources of the people. The fundholders are maintained at the expense of the producing classes of the community, and as the burden to which these can submit is limited, a government cannot increase its debt beyond certain limits without failing to pay the interest. When it has once begun to fail in this respect its difficulties increase, its creditors will only lend at higher interest, fresh loans are raised to pay the interest, and the debt increases until the Government is driven at last to tacit or open repudiation. Where a government keeps clear of such folly, the rate at which it can borrow varies inversely as the amount of its debt, and it is possible that

a statistician might be able to specify the amount which each particular country could borrow at 3 per cent. There must always be some unwillingness to entrust money to the keeping of a foreign government, but it is to be hoped that as the intercourse of nations becomes more friendly, and the conduct of governments more upright, the legal and other barriers to investment in foreign stocks will be, to some extent, broken down, and that a table compiled a century hence on the model of Mr. Baxter's would exhibit a much more uniform character.

The interest paid on railway debentures might with more propriety than that on Government stocks be taken to indicate the rate of profit. Railway companies would not be able to borrow money without paying interest, as the Government might do, and as they are trading concerns they must retain from their own profits sufficient to enable them to pay the interest on their debentures, and cannot obtain this by a compulsory levy on the taxpayers. Yet even here there is room for variation in the rate of interest, while the rate of profit is the same. American railway companies are obliged to pay 7 per cent. on their mortgage bonds, while the rate paid on the debentures of English companies is about 4½ per cent. But the dividends on the ordinary shares of American and English railways do not exhibit so great an inequality, for, while in the former case the average is 5 per cent., it is 4 per cent. in the latter. This would seem to show that the rate of profit is little, if at all higher in the United States than in England, but that the credit of railway companies does not stand so high in the former country. Although most of the American railways fulfilled their engagements there have been some scandalous failures, and as it is difficult for the outside public to tell which will be the next defaulter, they shrink from investing in such securities without the compensation of high interest. The profits of the railway must be sufficient to meet the interest on the mortgages, but it does not follow that the profits are equal to 7 per cent. on the capital invested in it, for the amount of the mortgage may be much less than that of the share-capital which is pledged for its payment. There are, indeed, many American railways which pay much more than 7 per cent., but there are also many whose whole earnings are swallowed up in paying the interest on mortgages, and the average rate is not much higher than that which English investors can usually obtain. The vast extent of thinly-peopled territory which the United States still possess affords a favourable field for speculating in railways, which, according to the accounts of their projectors, are to open up new and fertile districts, but which, being constructed before there is sufficient traffic for them, frequently end in a more complete collapse than the most unfortunate English lines. When a railway company has proved successful, and has

for several years yielded a good dividend on its ordinary shares, it is able to renew its debentures on more favourable terms; and this reduction of the interest enables larger dividends to be paid to the shareholders: so that here, as elsewhere, a success is the parent of increased success. When time has been allowed for the public to acquire confidence in the honesty and prosperity of American railway companies, they will probably be able to borrow on as favourable terms as their English rivals; and as the rate of interest on this class of securities tends to fall as the industry becomes more securely established, it cannot be taken without qualification to indicate the rate of profit.

Although the rate of interest on safe stocks is not always the same, it varies very little in the course of a year; but the case is very different with the rate of discount charged on short loans of money, which frequently changes from 2 to 10 per cent. in the course of a year, and seldom, at least in England, remains the same for three months together. Different countries exhibit as great differences in the rates of discount as the rates of interests on their funded debts. Five per cent. is considered high in England, but in the United States and in Australia the rate seldom falls so low, and 8 per cent. may be taken as the average. Here, again, it would be unsafe to take the rate of discount as indicating the average rate of profit in any particular country, and if the test were a sound one, it would show that the traders of America and Australia make twice as great profits as their English competitors. That they do not do so appears from the comparatively small difference between the returns on railway enterprise in these different parts of the world, and a similar conclusion is supported by a comparison of the profits of banking companies. If the rate of discount afforded an index of the rate of profit, the business of money-lending is precisely that in which the test would be most accurate, and yet high rates of discount do not bring extraordinary profits to the banks which maintain them. In the chapter on profit (Book II., chap. 4), I have endeavoured to show that banking companies do not make much higher profits in America and Australia than in England.

The variations in the rate of discount are caused by the varying circumstances which render it easy or difficult for banks to lend the quantity of money which they are called upon to do. In England, the money which a bank possesses constitutes but a small part of what it lends, and by far the greatest part consists of what has been intrusted to it by other people. As the depositors are able at any time to withdraw their money, and as they avail themselves of this power in a very irregular manner, while the quantity which people wish to borrow is perpetually varying, banks are obliged to devise some means of checking

the demand for loans at such times as their resources are failing them. The means most commonly adopted is that of raising the rate of discount, and accompanying this step by a corresponding rise in the rate of allowance on deposits. Thus, with one hand they strive to prevent people from borrowing from them, while with the other they try to induce people to lend to them. The effect of these measures is generally small, for those who wish to borrow at such times are generally such as cannot afford to do without a loan, and the loss inflicted on them by high interest is nothing to what they would suffer if they were unable to borrow. But the high rates have the effect of bringing in a handsome profit to the banks, and it has been noticed that the Bank of England and a few others make exceptional profits at the time of a commercial crisis. Competition establishes some sort of uniformity among the profits of different banks, and compels them to offer money at low rates when they have plenty, and at high rates when they have little to lend. A bank which charges 6 per cent. when others are offering to lend at 3 per cent. will do no business ; and one which offers to lend at 3 per cent. when others are asking 6 per cent. will be called upon to lend so much that it will be in danger of exhausting its reserve. There are so many circumstances which are perpetually causing fluctuations in the quantities of money which banks are called on to lend, that it is practically impossible for the same rate of discount to be maintained for any considerable period, and it usually changes about ten times a year. Formerly, it is true, the Bank of England used to maintain the rate of 5 per cent. for years together; but it only did so by consenting to lose all business when other banks were willing to lend at a lower rate. The Bank of France at the present time very seldom makes a change in its rate, but this does not enable Frenchmen always to borrow at the same rate. At some periods, the rate charged by this Bank is higher than that at which other establishments can afford to lend, and at such times French borrowers do not apply to it, or, at least, not to any large extent. At other periods, the Bank of France is not able to lend as much as is required, and though it does not enforce such high rates as are sometimes charged by the Bank of England, it is obliged to protect itself by other expedients which inflict quite as great hardship on borrowers. Though it is allowed by law to charge whatever rate may be thought convenient, it is required to hand over to the Government whatever extra profit it may make by charging more than 6 per cent., and has, therefore, very little inducement to exceed that rate. But on occasions of pressure it declines to advance money on the security of bills which have more than forty-five days to run. This restriction is far more inconvenient to borrowers than a considerable increase in the rate. It

cannot, however, be doubted that the rate of discount fluctuates less in France than in England, and there are several circumstances which concur to produce this difference. The practice of depositing money in a bank is much less common in France than in England; and French bankers are, therefore, less exposed to sudden withdrawals of their resources. The bills on which French banks make advances are smaller in amount than those discounted in England, and consist in a much larger proportion of those connected with the retail trade; and, as the retail trade of a country is comparatively little affected by commercial panics, this kind of business is of a more steady character. The Bank of England, though it formerly preserved an uniform rate for a long period, has now changed its policy, and the change has been ascribed to the Act of 1844. It is possible that the Act may have had something to do with the increased frequency of fluctuation which has been observed since it was passed, but there are other circumstances which would have produced a similar result if that Act had never been passed. Before 1839 it was illegal to charge higher interest than 5 per cent., so that it was impossible for the bank to impose the high rates which it has so frequently done since; but the partial repeal of the Usury Laws in that year gave it freedom in this respect, and it would probably have raised its terms in 1847 even though the Bank Act had not been passed. The system of keeping money on deposit, though it did not begin in 1844, has received a great development since that time, though this is in no way due to the Act passed in that year. Bankers now receive large sums on some of which they have to pay interest, and on others have to pay none, but all of which are liable to be withdrawn at very short notice; and the Bank of England is entrusted with very large sums by the other banks of London, which are obliged to keep a balance there in order to effect the payments which the Clearing House system requires. The great extension of telegraphic communication may also have contributed to expose the London money market to more frequent fluctuations. All the principal financial centres of the world are now connected by telegraph, and information is hourly received in London respecting the state of the money market in all parts of the world, and any news which can produce any effect produces it at once. After 1844 it was understood that the Bank of England would pursue a new policy, and would compete with other banks for a share in the business of discounting bills; and though its efforts have not been attended with much success, they have been the means of producing more frequent changes in its rate of discount. After all, the amount of discount business which the Bank is able to perform, constitutes, in ordinary times, a very small portion of its loan operations, as may be seen by Mr. Seyd's paper before referred to, and

it is also small in comparison with the total amount which is transacted in London. If it were content, as formerly, to go without this kind of business when it could not obtain 5 per cent., it would be able to preserve that rate for a considerable period, and it would still be able to do a large business at the time of a crisis, as it has always done both before and since 1844. Mr. Thomson Hankey reasonably urges it is difficult for the Bank to judge properly of the standing and character of the persons who apply for assistance at a time of pressure, unless their names are kept constantly before it at other times; and if it is to discount their bills, it must offer terms not much exceeding those of other banks. Acting on this policy, the Bank is perpetually altering its rate whenever that which is charged by other establishments, or, as it is called, the market rate, rises much above, or falls much below, its own. As a rule, the market rate is slightly below the Bank rate, but the latter is usually considered as the measure of the value of money in the sense in which that phrase is used in financial discussions, where it means not the proportion in which money will exchange for any other commodity, but the rate of interest which can be obtained by lending it. Great as are the resources of the Bank of England they are not sufficient to enable it to monopolise the loan business of the country, and it finds it necessary to raise its rate when the fact of its offering to lend on cheaper terms than other establishments attracts an unusual number of borrowers. When the Bank rate is above the market rate, and there is only a small demand for loans, the other banks are able to secure all the business; and if the Bank reduces its rate in order to obtain a share of it, the effect is that the market rate is still further reduced when the competition of the Bank prevents other establishments from lending out as much as they wish to do. As Mr. Gilbart says, the Bank can neither make money cheap nor dear, but when it is cheap the Bank can make it cheaper, and when it is dear can make it dearer. The Bank is constantly assailed on account of the frequency of the changes in its rate of discount, but these censures are ill-deserved, for, in making them, it is only pursuing its own interest in the same way that all other companies do by making the best terms which it can for itself in disposing of the article in which it deals. It is frequently censured on the ground that the Bank rate is taken as a guide in fixing the rate of interest which other banks allow on deposits, and that these establishments are injured if they have to pay a rate which is higher than what they can obtain by lending out the money. As, however, the Bank does not invite other banks to take its rate as a rule for their own guidance, it is not easy to see how any blame can fall upon the Bank if the rate does not answer a purpose for which it was not intended. The Bank is obliged to vary

its rate in order to secure as steady a business as possible ; and the complaints are generally made at those times when its rate is maintained above the market rate, and if the Bank were to pay attention to them, it would change its rate even more frequently than at present. The joint-stock and other banks which allow interest on deposits, generally agree to give from one to two per cent. below the Bank rate, and they think it hard that the latter should be kept high when the terms which can be obtained by lending money are very low. But the Directors of the Bank think it undesirable to make a change in their rate, either because they think that their reserve requires replenishing, or because they think that it will soon be necessary to return to the former rate, and that a change will only cause unnecessary trouble. If the Bank rate is found to be, as, in fact, it often has been, an inconvenient rule for determining the rate of allowance on deposits, it would be well if some other standard were adopted, or if some other establishment, as, for instance, the London and Westminster Bank, were allowed to settle the rate.

The causes of the fluctuations in the Bank rate have often been investigated, and every change is sure to give rise to a discussion in the newspapers. As the accounts of the Bank are published every week, the public have some means of ascertaining the circumstances which influence the decision of the Directors, but the statements are not so full as could be wished. The principal circumstance is the amount of gold held in reserve and available for the purposes of the banking-department. When this suffers a considerable diminution a rise in the rate is looked for, though it does not always follow. It is impossible to predict the rate from a mere knowledge of the amount of the reserve, and this has been insisted on by Mr. Bonamy Price as proving that there is no connection between the two things, but it does not follow that this is not one of the circumstances which determine the rate, because it is not the only one. Mr. Palgrave* has investigated this subject with his usual industry and care, and has analysed some more complete returns of the accounts of the Bank which were printed by order of the House of Commons. These give the amounts of the balances held by bankers at the Bank, and they show that the Directors regard these balances as liable to be drawn out at any moment, and do not consider that a low rate can be safely maintained unless there is a large amount of deposits belonging to other persons and bankers. Mr. Palgrave shows that, though the rate does not correspond to the amount

* "On the Relation of the Banking Reserve of the Bank of England to the Current Rate of Interest." Journal of Statistical Society, 1873.

of the reserve, still an increase in the latter is generally followed by a fall in the former, although this does not happen immediately. He shows also that the average rate was higher during the period 1857-72 than during that of 1844-56, though the difference did not amount to one-half per cent. That the amount of the reserve has much to do with the rate is shown by the fact that the latter is usually highest in the last quarter of the year, when the reserve is at its lowest. It is thus that the Bank Act contributes to raise the rate of discount by placing an artificial restriction on the power of the Directors to use the whole of their resources. Were it not for the Act, they might reckon on the whole of their reserve to meet the demands of all their creditors, but the Act compels them to set aside a large portion for the benefit of one class of creditors, the note-holders. They generally consider that they ought not to allow their reserve to be less than one-third of their liabilities, and when this point is approached, they endeavour to strengthen their position by selling securities, or by raising the rate, or by both these methods. If they were allowed to use the whole of the bullion in their vaults, they would possess a fund larger by a quarter of a milliard than that which they can now call their own; and, in such a case, the withdrawal of any given sum would have a smaller effect, and would not be followed by such decided measures. It must, however, be borne in mind, that if it were not for the Act, the Directors would not keep so large a reserve, and that the Act only prevents them from using what they would not possess without it. Still the fact remains, that at the time of a crisis the reserve of the Bank is exhausted at the very time when it possesses a considerable amount of gold, and that the increase of notes at such a time cripples the resources of the Bank by rendering it necessary to lock up more gold. The raising of the rate, when the reserve is undergoing diminution, is a measure which is adopted by the Bank in order to discourage fresh borrowing, and to replenish its resources by allowing the old loans to expire. It is frequently necessary to raise the rate several times in quick succession before the figure can be reached which will deter borrowers; and, at the time of a crisis, no figure is high enough for this purpose. At other times, many people ask for loans which they can afford to dispense with or to postpone, and a high rate induces them to wait until the disturbance has passed away and more favourable terms can be obtained. The drain of gold from the Bank is viewed with much apprehension unless it is known to be caused by the necessity of exporting it abroad; and when this is the case, a rise in the rates has some tendency to check the exportation, and so save the Bank from any further diminution of its resources. When the rate charged in England is 2 per cent. higher than that which can be

obtained in France or Belgium, an inducement is held out to French or Belgian bankers to send gold to England, or, at least, to delay withdrawing what they may happen to possess there, and thus to check the exportation (the difference of 2 per cent. being necessary in order to cover the expenses of transporting bullion). It may often be noticed that a rise in one country is followed by a rise in another, and that what Mr. Patterson calls a "War of the Banks," is prompted by the desire of each to check the outflow of bullion from a country where the rate is lower than elsewhere. Sometimes these measures seem to produce the desired effect, though, in fact, the coincidence is only accidental. The bank rate is raised, and immediately afterwards the telegraph announces that a steamer has left Melbourne or Sidney with a large amount of gold; but as six weeks must elapse before it can arrive, it is not likely that Australian Banks would be tempted by a high rate which would probably have given place to a low one by the time the gold arrived. During some months in 1866, the Bank of England maintained its rate at 10 per cent. while the Bank of France was only charging 4 per cent., but even this difference did not attract gold from France to England. But although the effect is not always or immediately produced, it is certain to follow unless some extraordinary circumstance interferes. When a country has to make a large foreign payment in excess of its receipts from abroad, gold furnishes the most convenient means of remittance, and must be withdrawn from the banks whatever may be the rate of interest charged. The fact that a lower rate of discount is charged in a foreign country will not enable many merchants to get their bills discounted abroad; for foreign bankers, though they may be willing to charge a low rate to borrowers with whom they are familiar, will charge a higher rate with strangers. But a high rate tends to produce a fall in the price of several securities, partly because some persons who would otherwise invest their money in securities prefer at such times to lend it out on short loans, and partly because many holders of securities are obliged to sell, and the fall in the price attracts foreign purchasers who are obliged to remit bullion. As the bullion arrives, the reserve of the Bank increases, and when all those who are forced to borrow have been satisfied, the drain on the resources of the Bank slackens, and it is able to reduce its rate. The Bank Acts of 1845 aggravate the natural tendency to fluctuation in the rate of discount by compelling the Scotch and Irish Banks to increase their reserve of gold to the same extent as they increase their notes. This increase always takes place about November, and the consequence is, that a large amount of gold is withdrawn from the Bank of England, which serves no other purpose than that of obeying the law; while its loss compels the Bank to raise its rate, in order, if

possible, to stop any further withdrawal. The fact that the Government balance in the hands of the Bank is usually lowest after the payment of the October dividends furnishes an additional source of weakness; and if to these two causes there be added a foreign crisis, or a serious failure in England, there is sure to be either a crisis, or, at least, a high rate maintained for two or three months. As the accounts of the Bank are published every week, the public can always tell when the reserve is diminishing; and this, when it happens, is apt to produce some alarm, and to give rise to borrowing on a larger scale from fear that the rate will soon be raised. It has been often suggested that though the reserve is larger than it used to be, it is not large enough for the wants of the present day; and several writers have tried to impress on the Directors the duty incumbent upon them, as guardians of the banking reserve of the country, of maintaining a large store of gold to meet all contingencies. If banking were free, it would be out of place to impress on Directors the importance of performing as a duty what their own interests would be enough to induce them to do; but as the Government has given to one bank a monopoly of the business of issuing notes in London, it is not unnaturally thought that the monopolists are bound to use their privilege for the benefit of the public. Some good might be done by keeping a larger reserve, but it is quite impossible for any bank to keep a large one at all times, and even the enormous reserve of the Bank of France has sometimes been almost exhausted. The depositors have it always in their power to withdraw the whole of their deposits, and no bank performing the functions which banks are expected to perform in England could maintain a reserve equal in amount to its notes and deposits.

That the amount of gold held in reserve by a bank has great influence on the rate of discount which it charges, and on its power of meeting its engagements, may be seen by a comparison of the accounts of the Bank of England, or of any other bank, at different periods. It hardly needs to be proved that when a bank is exposed to a run, a sudden influx of gold will enable it to hold its ground. Mr. Kennedy, in his "Four Years in Queensland," tells us, that in 1866 several banks in that colony were in danger of stopping payment, but were saved by the opportune discovery of some gold mines, the produce of which was deposited in their keeping. The Californian and Australian discoveries were followed by a large increase in the reserve of the Bank of England and by the maintenance of low rates of discount, and it can hardly be doubted that the facts stood to each other in the relation of cause and effect. Some persons somewhat hastily concluded that this effect would be permanent, and that because the discoveries had reduced the cost of

obtaining gold, they would also reduce the rate of interest. They thought that because money was cheap in the sense of purchasing less of other things, it must therefore be cheap in the sense of bringing in a smaller quantity of itself when transferred from a lender to a borrower. That this did not follow hardly needs to be proved, but if proof were wanting it would be furnished by the fact that the rate of interest rose enormously in the very countries where the discoveries were made. In England the influx of gold was sudden and the rise of prices gradual, so that a large quantity which the public did not require was retained in the Bank ; but in Australia the rise of prices was more rapid than the increase of coin, and the banks had no greater addition made to their receipts than to their disbursements. As prices were constantly fluctuating, and as the whole structure of society was undergoing a radical change, it is no wonder that the banks were obliged to charge high rates, when they could not tell whether the wealthy man of to-day might prove to be a bankrupt to-morrow. That a withdrawal of a large amount of gold is accompanied by a high rate of discount is shown by the accounts of the Bank in every commercial crisis, when it is always seen that the reserve is at its lowest. Some persons who have noticed this have bethought themselves of a simple expedient for obviating commercial crises by doing away with the obligation incumbent on the Bank of paying its notes in gold : they argue that as banks fail from not being able to furnish gold when required, they would never fail if relieved from the obligation to furnish it, and that they might then be able to maintain an unvarying rate of discount. But those who argue thus, look merely at the surface, and do not see that the power to produce a given quantity of gold is merely the sign of the wealth of a bank, and that if this particular sign be dispensed with, another would be required which would be equally onerous to the bank. In the United States, banks are required to pay not in gold but in inconvertible notes, but they are just as much exposed to the danger of exhausting their reserve of notes as English banks to that of exhausting their stock of gold, and the severe crisis of 1873 showed that they were quite unable to maintain a moderate rate of discount, though they were in most cases only obliged to redeem paper with paper. Whatever be the mode in which banks are required to meet their engagements, some check must be imposed upon them to prevent them from manufacturing paper money *ad libitum*. If they were allowed to issue notes which professed to be certain sums of money, but for which neither the bank nor any one else was obliged to give anything of value, they would either be able to appropriate the money of other people, or the notes themselves would be deprived of value. In the latter case they would not fulfil the object of enabling borrowers

to obtain what they wanted; and, in the former case, though they might be of use for a time, the receivers would soon be unable to do without obtaining some more solid advantage in exchange for them, and would refuse to give their commodities for them, and depreciation would soon follow. Although the form which a loan takes is that of a transfer of money, the real object in view is to obtain commodities, and the power of a people to borrow and lend ultimately depends on the quantity of commodities which they possess. This point has been ably urged by Mr. Bonamy Price, in his review of Lombard Street, in "Fraser's Magazine" for October, 1873, where, however, he is inclined to ride his theory somewhat too hard by contending that a quantity of gold held in reserve has nothing to do with the rate of discount. At ordinary times, what people wish to borrow is capital for carrying on their business, and this they would contrive to do if gold were not used at all. At the time of a crisis, what they want is not so much capital as money, in some shape or other, to enable them to fulfil engagements which are expressed in money. At such times the Bank Act does much harm by artificially preventing debtors from obtaining coin and notes which their creditors would willingly receive, and which other persons would be willing to lend them. The Government cannot undertake to borrow unlimited sums at a fixed rate of interest, because it would be unable to provide itself with the means of meeting all the calls which might be made upon it. This fact has been kept in view in the arrangements of the Post Office Savings' Banks, where, although the Government undertakes to pay a fixed rate of interest of $2\frac{1}{2}$ per cent., it limits the amount which a single depositor may place to his account, and even enforces its rules by so strong a measure as imprisoning those who resort to deception in order to exceed the prescribed limit. The joint-stock banks, though they engage to borrow unlimited quantities, protect themselves by varying the rate of interest according to the variations in the rate which they are themselves able to charge for loans. If large amounts are brought to them, they either require some notice to be given before the money is withdrawn, or, at least, offer to allow higher interest on condition of such notice being given.

As the rates of interest paid on different stocks differ considerably, as each stock possesses some merits or defects peculiar to itself, and is liable to be affected in price by political or other events which can have no influence upon other stocks, there is a wide field open for those who choose to engage in the business of buying them when they are cheap, and selling them when they are dear. When a revolution takes place in any country, one of the first effects is usually a fall, and more rarely a rise, in the price of the stocks issued by the government which has been

overthrown. It is natural that the price should fall, for a revolution is seldom effected without considerable expense to the new government; and this is likely to interfere with the due discharge of its pecuniary engagements, including that of paying the interest on its funded debt. When a rise takes place, as was the case with Spanish stock on the proclamation of King Alfonso XII. in January, 1875, it is because it is expected that the new government will be stronger and more scrupulous than that which preceded it. Even a change of the head of the State, or a mere change of ministry, though effected without violence, sometimes produces an effect on the price of the funds. The French funds rose on the overthrow of M. Thiers on May 24th, 1873, apparently because French investors regarded the presidency of Marshal McMahon as a better guarantee of order than that of his predecessor. Besides political changes, there are other acts of a government which produce effects of this kind, the principal being the issue of fresh loans. If it is announced, or even rumoured, that a government is about to ask for a fresh loan, a fall in the price of its old stocks is almost sure to follow, although no doubt may be entertained that the interest on the new loan will be paid as punctually as on the old. When a war is expected to break out, the stocks of both governments which are to engage in it suffer a fall because it is expected to lead to fresh borrowing. Thus, even if there were no stocks except those issued on the authority of a government, there would be ample opportunity for persons possessed of superior knowledge or greater boldness to amass wealth by purchasing them when from any cause their price has fallen, and selling them again when the disturbance has passed away. Such a business is carried on to a large extent at the present day, and has received the appropriate name of Stock Exchange speculation. It is essential to success in this business that the operator should be supplied with early information, and accordingly those who engage in it as the business of their life spend considerable sums in obtaining news by post and telegraph from all parts of the world. Unfortunately, these persons are too often not content with obtaining news, but, when they cannot get such as would suit them, they do not scruple to invent it, and to enrich themselves at the expense of more honest or less wary speculators. There are now a large amount of stocks issued by private companies which afford an additional field for this kind of business. As some of these consist of shares, the dividend on which rises and falls according to the success of the particular company, there is room for an indefinite fluctuation in their price; and here again it is of the utmost importance to be supplied with early and complete information respecting all circumstances which can affect the amount of the dividend. Within a few

years the dividend on the ordinary shares of the Great Western Railway rose from one-half per cent. to 4½ per cent. per annum, and the price rose from 30 per cent. to par. The opportunity which was thus afforded for trebling the amount invested was adroitly seized by some persons who could afford to wait for some time before realising a profit, and their boldness was rewarded with a considerable fortune. As nearly every railway is at some time or other exposed to reverses, and has always a chance of a return of prosperity, those who engage in this sort of business are obliged to be continually transferring their money from one company to another. The debentures and preference shares are not so much exposed to fluctuation of price, because the dividends do not vary according to the success of the particular company, but never rise above, and very seldom fall below, a definite rate. They may be purchased by trustees, and this alone is sufficient to produce a comparative steadiness in their price, for trustees are a large body, and are but little disposed to change an investment because some temporary cause would make it profitable to do so. Those who are not fettered in their choice of investments by the restrictions imposed on trustees, are able to transfer their money from debentures to ordinary shares, or from railway shares to Government stocks, according as they may see a chance of making a profit; and this perpetual shifting is for ever tending to establish such an equilibrium that in whatever way money is invested it shall bring in the same rate of interest. This equilibrium is never indeed completely attained, for different classes of securities cannot always present the same advantages, and there is always something to be gained by those who do not scruple to incur some amount of risk. Stockbrokers and others whose business it is to act as agents between those who wish to buy and those who wish to sell stocks, frequently employ their own money in buying up a stock which at the moment is not required by *bona fide* investors, and sell it again when investors are ready to take it. By doing so they make a profit for themselves, and at the same time confer a benefit on the government or the company which happens to bring out a loan at a time when the investing public are not prepared to purchase it. Such persons not unfrequently borrow money for the purpose of buying stocks, and to them the rate of discount which may happen to prevail is a matter of great importance. During 1871-2 many persons made fortunes in this way by purchasing foreign stocks whose price was low with money borrowed for the most part on the security of the stocks themselves; while the rate of discount being low, they had to pay much less for the loan than they received from the stocks, and were able to sell at a price which enabled them to repay the loan and to clear a considerable sum. But, unfortunately, there are other

persons, who, from observing that the prices of different stocks are perpetually rising and falling, have inferred that they can enrich themselves by simply buying a stock on credit, and selling when its price has risen, without possessing any knowledge of the circumstances which may cause the price to rise or fall. They persuade themselves that Stock Exchange speculation is so simple a business that a person can succeed in it without devoting to it the time, skill, and trouble which are necessary for success in any other line of life. Mr. Crump's "Theory of Stock Exchange Speculation" is an able treatise intended to warn such people of the folly of this delusion, and it is only to be regretted that there is but a small chance of the book being read, much less heeded, by those for whose benefit it is intended. He carefully distinguishes between the professional speculator who makes it his business to study the circumstances relating to a few stocks and get early information about them, and the "hap-hazard speculator" who supposes that a stock will continue to rise in price merely because it has been rising for a month or two. He justly remarks that persons of this latter class have no more chance of winning than those who used to play at the roulette tables of Baden and Homburg. At the gaming table, rules were devised which ensured that the bank should win in the long run, and Mr. Crump tells us that stockbrokers stand in the same position toward speculators as the bank towards the gamblers. Whenever a transfer of stock is made through a broker, he requires a commission, and, as Mr. Crump points out, the payment often eats away an apparent profit while it greatly enhances a loss. The stock-jobbers, who make it their business to buy and sell any quantity of stock that may be required, secure a profit to themselves by making a difference between the price at which they buy and that at which they sell on the same day. In some of the more speculative stocks this difference is as high as three per cent., and it is difficult to find a better example of the ignorance of "hap-hazard speculators" than is furnished by Mr. Crump when he tells us, that the mere fact that the price of such stocks is quoted as 35 to 38 induces them to suppose that they can realise a profit by speculating in it. They suppose that the price has varied from 35 to 38 in a single day, and that a stock which fluctuates so greatly affords a favourable field for speculation; but when they make the experiment they find that they have to sell for about three per cent. less than what they paid, and the difference goes into the jobber's pocket. Speculation of this kind resembles the gambling of Baden and Homburg in this respect also, that whatever success may be at first attained, people are never content with it, but are constrained to try their luck again, until they have lost everything and are

obliged to stop. Mr. Sala has given in his "Make your Game" an amusing sketch of the state of things at Homburg before the gaming-table was suppressed, and he tells us, that though there have been people who have possessed sufficient strength of mind to quit Homburg for ever after winning a large sum, yet as he is "not writing for oysters and icebergs," he is justified in saying that if any of his readers should frequent the gaming-table, they would infallibly continue until they lost all their money. Mr. Crump tells us the same thing of Stock Exchange speculation. If the first venture is successful, the speculator considers it a proof of his own talent, just as a gambler congratulates himself on his skill in predicting that red would turn up next. He persuades himself that he is sure to win next time, and if he is unfortunate he is sure that the luck will turn, as the gambler feels confident that black will turn up at last if he will only continue to back it. As speculators of this class have little or no money of their own to begin with, they cannot stand long against a run of ill-luck, and when the whole of what they possessed has been swallowed up in brokers' commissions, or some unusual circumstance has produced a sudden fall in the price of the stock in which they have embarked, their career terminates in the only way in which it can terminate, in bankruptcy. The fact that there are always many such persons on the verge of bankruptcy makes intelligible what at first sight appears so extraordinary—the immediate effect which the news of a battle or the change of ministry produces on the price of a foreign stock. English investors would never think of selling out consols merely because English troops had suffered a reverse in China, or because a Liberal ministry had given place to a Conservative one ; but speculators in Spanish bonds may well desire to realise on the first news of any event which holds out the slightest chance of the recognition of their claims. It would be well if this sort of speculation did no harm to anyone except the speculators themselves, but, unfortunately, it injures other people also. Of late years, speculation in bank shares has been carried on to a great extent in England, and has had the effect of injuring some of the banks concerned. The publicity which is now afforded to their annual meetings and statements of accounts enables speculators to compare the dividends of different banks, and to buy or sell shares according to the profits which they are making. This encourages an unhealthy competition on the part of the banks whose managers desire to see the shares quoted at a respectable figure, and induces them to starve their reserve in order to be able to pay high dividends. Nor is this all ; for many depositors are frightened by a fall in the price of the shares, which they consider as a proof that the bank is in difficulties, and, by withdrawing their deposits, they roduce

the catastrophe which they dread. The stoppage of the Agra Bank in 1866 was thus brought about, though, as has been subsequently seen, it was perfectly solvent. Such speculation is prevented in Sweden by the legal difficulties placed in the way of transferring bank shares. Speculation in foreign stocks has the effect of encouraging the extravagance of governments which, like those of Turkey, Egypt, and Spain, habitually spend more than they receive, and trust to fate to make up the deficiency. If the loans raised by such governments depended for their success on bona-fide investors, it would be impossible to raise them after the government had once proved defaulter; but speculators are ready to invest in them because they hope that, even if they do not themselves receive any interest, they will at least be able to sell the principal for more than they gave for it. As the total number of speculators is very large, they can, collectively, produce sufficient sums to take up the comparatively small loans which are issued by these governments, and thus prolong the lease of credit which the latter still contrive to enjoy, instead of compelling them to choose between repudiation and retrenchment. The knowledge that these loans are so largely subscribed for by speculators renders it difficult to feel any sympathy for the bondholders when the time of default or repudiation arrives, and no doubt the Ministers of those States salve their consciences with the reflection; so that an injury is thus inflicted in those exceptional cases where the bonds are held by bona-fide investors who have trusted to the promises of the government. In speculation of this sort it is a common practice to agree to buy at one price and sell at another, the difference alone being transferred, while the actual stock does not change hands. This is done to such an extent that, in 1874, a Clearing House was established on the London Stock Exchange for the purpose of minimising the transfers of those bonds which are the chief subjects of speculation. The plan, which is similar in principle to that of the Bankers' Clearing House, has been found to work well, and has enabled brokers to settle, by a single transfer, as many as twenty transactions. This kind of business is fairly open to Aristotle's criticism on money-lending, that those who engage in it do not produce anything, but simply make money out of one another. Those who lend money benefit the borrower at the same time that they benefit themselves, for they enable him to make a profit by the use of the money; but those who speculate in the stocks of defaulting governments can only make a profit at the expense of other speculators. The price of the stock does not continue to rise, but is continually fluctuating, and whatever is gained by those who sell at a higher price is sure to be lost by those who are obliged to sell at a lower price. In such a game the

hap-hazard speculator is completely at the mercy of the professional speculator, whose gains are almost entirely derived from the losses of his less-experienced competitors.

As speculation of one sort or another is always tending to divert money into the channels where it will yield most profit, there is always an interchange going on between different countries according as home or foreign investments hold out the highest interest to the moneyed public. The tendency is obviously to bring the rate of interest on stocks to the same level in all countries, although this result is, as yet, very far from being attained. When a long period has gone by without many fresh loans being offered to the people of a particular country, either by their own government or by companies within the country, a marked rise is perceptible in the prices of all old stocks; and such a time affords a favourable opportunity for foreign governments or companies to invite subscriptions to a loan. As the wealth of a country increases, it becomes able to support a larger number of persons who do not labour for their own living, and a sign of the increase of this class is seen in the larger sums offered for investment in the public funds, mortgages, land, etc., from which such persons obtain an income. The extent of land which a country possesses is always limited; and if the amount of stocks has not undergone a corresponding increase, the larger sum cannot be invested without a rise in the price of some, or all, of the old stocks. Such a rise indicates that the time has arrived for introducing fresh projects, which soon make their appearance when prices fall again, and the cycle is repeated. Foreign stocks come in for their share of attention, and if they are purchased to any large extent a large quantity of commodities must be exported to discharge the obligations. Mill has described this process as the tendency of profit to a minimum, and he regarded foreign investments as the safety valve which prevented the rate of profit from falling to that lowest point after passing which it would not hold out any inducement to capitalists to save. In the chapter on profit, (Book II., chap. 4), I have endeavoured to show that the rate has no tendency to fall as a country advances in wealth; but it cannot be doubted that the rate of interest does at certain times show a downward tendency which is occasionally checked by investment in foreign securities. I have endeavoured to show that the increase of capital only takes place under conditions which enable its possessors to obtain as high profit from its use as former capitalists have done, and that there is no motive which would induce men to grow corn in less favourable circumstances than those in which it had been already produced. As the increase of food is sure to be followed by an increase of population, there cannot be a permanent, and there is seldom a temporary difficulty

in providing employment for capital; but the case is somewhat different with the money which wealthy persons wish to invest in safe securities. Governments and old-established companies will not borrow more for no other reason than that there is more to lend, and for a time there may be a difficulty in finding a field for investment. Even here the difficulty is only temporary, and there is no need, as some people have supposed, for the government to increase its debts in order to provide its subjects with the means of investing their money. The increase of the investing class shows that the country is able to support them, and the intervention of the Government is not required to enable this to be done. The knowledge that there are many persons seeking a safe investment will encourage landowners to raise mortgages, and companies to create debentures or preference shares, which will answer the purpose quite as well as an increase of the national debt, without bringing on the people the inconvenience of increased taxation. That investment in foreign stocks benefits the investing classes is obvious, but there are some, and Mr. Fawcett* is among them, who consider that it inflicts an injury on the working classes. They argue that such investment is really an exportation of capital, and that the labourers must suffer by every diminution of the capital of their country.

In what way they suffer is not clear, for the exportation of capital does not tend to make labour less efficient, nor, therefore, to reduce real wages. When the commodities exported are such as are used for food, their loss tends, so far as it goes, to diminish the population of the exporting country, and the numbers of the labourers are diminished at the same time as those of other classes, but this does not imply that those who remain are worse off than before. It frequently happens that when money is subscribed in England for the purpose of constructing a railway in Canada or Australia, navvies and other labourers are sent out from England to construct it, so that the same persons are employed in the same way as if the money had been kept at home. Though the connection is not so obvious when loans are raised for railways in the United States, it can hardly be doubted that the large investments made in this class of securities contribute to the employment of English emigrants, and confer as much benefit on English labourers as if they had stayed at home. That the large investments which Englishmen have made in foreign stocks have not had the effect of diminishing the population of England is shewn by the census returns, which prove that it has increased by several millions during the last 20 years. Nor is it by any means clear that this process has any tendency

* "Fortnightly Review," January, 1874.

to diminish the returns on English industry. Payments for foreign securities are effected by means of iron rails, cloth, and other articles, which enable foreigners to increase and improve their production ; and whatever does this, increases their power of supplying the wants of English consumers, among whom the working classes, as the most numerous and the poorest, must derive the chief benefit from whatever diminishes the cost of production.

CHAPTER X.—COLONIES.

COLONIAL DEPENDENCE—COLONIAL TRADE—EMIGRATION—TRANSPORTATION—PROTECTION IN WAR—LOCAL SELF-GOVERNMENT.

"THE Wealth of Nations" was published in the very year in which thirteen provinces of North America issued their memorable Declaration of Independence. In Adam Smith's day, the question whether the mother country ought or ought not to retain its authority over its colonies was not a merely speculative question, but one which the politicians of the day were imperatively required to consider and to decide. He brought to its consideration the same comprehensiveness and freedom from prejudice which are displayed throughout his work, and nowhere more conspicuously than in the chapter which he devoted to this subject. Though he suggested a plan by which the pending struggle might be terminated without a separation between Great Britain and her colonies, he did not disguise his opinion that it would be better for all colonies to become independent, but regarded it as ridiculous to expect that Great Britain would ever consent voluntarily to renounce the allegiance of her dependencies. The thirteen provinces have now become the flourishing republic of the United States, which, during the century that has elapsed since the Declaration of Independence, has grown so rapidly that its population now exceeds that of the State which gave it birth. Probably no one now wishes that the United States were still subject to Great Britain, and the effect of their liberation has been to familiarise politicians with the idea that a time must come when colonies will and ought to throw off the yoke of the mother country. Instead of saying that the greatness of England would cease if she forfeited the allegiance of one of her colonies, politicians now repeat, with wearisome monotony, that England ought to abstain from any attempt to retain her colonies by force, and ought cheerfully to release them from their allegiance whenever they express a desire to that effect. But although the repetition of such phrases seems to betoken an advance in public opinion since the time when statesmen said that no effort should be spared to put down the American revolt, the progress is only apparent, and the writers who profess an approval, in the abstract, of the emancipation of colonies, contrive to find reasons for resisting every attempt which a colony actually makes to assert its independence. The Canadian rebellion of 1836 was forcibly suppressed, and the language

of London newspapers on the occasion of the Jamaica rebellion of 1865 showed very plainly that Englishmen had no intention of allowing the negroes to use their liberty for the purpose of establishing a form of government in accordance with their own wants and ideas. The example set by the thirteen provinces of North America has not been successfully followed by any other portion of the British Empire, but the Colonial Empire of Spain has been sadly shorn since the death of Adam Smith. France, too, has lost something, but in many cases what has been lost by one European country has been simply transferred to another, and the Colonial Empire of England is now more extensive than it was when Adam Smith wrote; while the recent annexation of Fiji shows that English statesmen are not yet convinced that they have too large a territory to govern. It is so much easier to see a mote in our neighbour's eye than a beam in our own eye, that a revolting colony is sure to find favour with foreign spectators who would themselves do their best to repress any outbreak on the part of their own dependencies. The French Government and people supported the North American colonies in their struggle against Great Britain, but they used every effort to keep San Domingo in subjection, and that island is probably indebted for its independence to the war between England and France which made it so difficult for the latter to exert any authority beyond the seas. Englishmen, in their turn, can see the folly of the efforts which the Spaniards are now making to preserve their authority in Cuba, while Spaniards are equally alive to the immorality and absurdity of the determination of England to retain possession of Gibraltar. It is only when the national dignity is wounded that politicians take for granted that they ought not to do by other men as they wish others to do by them, and the same inconsistency is shown in other cases besides those of revolting colonies. A mere question of internal organisation, such as the number of legislative bodies which should be maintained within a State, is viewed in a very different light by a foreign spectator and by a native statesman. The desire of the Hungarians for a separate parliament seems natural enough to an Englishman, although to Austrian statesmen it formerly appeared to be most treasonable. Now that they have obtained this object, and dualism has been tried for several years, no one thinks of ridiculing it as chimerical, or of denouncing Deák or Count Beust as traitors and agitators. When it was found by experience that one parliament was not enough for Canada, two were established to pass laws for the separate provinces of Ontario and Quebec, and a third to regulate matters common to them both, and the arrangement was cheerfully sanctioned by English statesmen. Yet, when Irish politicians, speaking the voice of numerous large Irish constituencies, ask that a

similar arrangement should be carried out in the United Kingdom, and demand that Ireland should have a local parliament, and should at the same time be represented in an Imperial Parliament, English statesmen seem hardly able to find words strong enough to express their scorn and indignation. Among English statesmen there are none whose opinion is entitled to more respect, or who might be expected to feel less prejudice against a novel scheme, than Mr. John Bright; and yet in what he has written on the subject of Home Rule he displays the same inability to understand the longing of an oppressed nation for independence which has been the characteristic of tyrannical kings and ministers ever since history began. In the "Times" of March 4, 1875, is published a letter from him to the Rev. T. O'Malley, in which, short as it is, the epithets "monstrous," "childish," and "absurd" are more than once applied to the Home Rule scheme. Mr. Bright writes as if he had never heard of the Federal system being actually in operation in Switzerland and Austria, as well as in almost every State in North and South America. As a reason why Ireland should not have a parliament of its own, he says, that there are only one million men in it who are opposed to English rule, and that half of these have no political knowledge; as if a small number of men had more difficulty in governing themselves than a large number, or as if the best way of infusing political knowledge into a people were not to give them institutions which are representative in fact as well as in name. He repeats what has been so often said by English politicians, that the Irish have never "been able to make a clear statement of their grievances," although nothing can be clearer than that this challenge is not an argument, but a trap. What the Irish object to is English rule, and for an Englishman to say that this is not a grievance is to say that he does not care whether the Irish are treated by him as he would wish to be treated by them. If the Irish mention a specific grievance, such as the Church or the Land, Englishmen regard it as a sufficient excuse for governing Ireland by brute force that they thereby prevent the Irish from passing measures which would be dangerous, unjust, revolutionary, or whatever abusive epithet comes to hand. If no specific grievance is mentioned, the omission is gravely cited as a proof that none exists. The feeling which dictates all attempts to retain dependencies is the natural one which prompts the strong to trample on the weak, and until human nature has undergone a very great improvement, the feeling will remain a very powerful one; and while it remains, there will be no lack of excuses for indulging it in this particular direction. Already a few philosophers, among whom is Mr. Spencer, have boldly contended that the retention of colonies by the mother country is essentially unjust and impolitic, and although their opinion has been

much abused and ridiculed, no arguments have yet been produced which are adequate to its refutation. But the question is not one which rational argument is allowed to decide, and even if there were no feeling of national vanity or lust of power to influence its decision, there would still be the enormous *vis inertiæ* which an established system always exerts. English statesmen, even if convinced that it would be desirable for Australia to become independent, would find it difficult to give any satisfactory reasons for renouncing so important a colony without being urged to do so by the Australians themselves, and they have quite enough to do in settling the difficulties which press for solution without going out of their way to originate important innovations. Colonial independence has always been, and probably always will be, the result of resistance on the part of a colony to some particular measure which the Home Government has refused to abandon in deference to the remonstrances of the colonists. The salutary lesson taught by the American revolt has been laid to heart by English statesmen, who very seldom persistently refuse the demands of an Australian or American colony. By timely concession they are able to avert a storm which a more obstinate policy would have raised, and the weakness of the control exercised by the Home Government has been the means of prolonging the duration of its authority. It is frequently prophesied that the Colonial Office will never again enforce its right of vetoing any Act passed by an Australian or British American legislature; but these prophecies have been so often falsified by events that they can no longer claim any credit. The excuses for the exercise of this right in particular cases are plausible enough; but so long as it is exercised, it cannot be said that the colonial legislatures are virtually independent. It must, moreover, be borne in mind, that Australia and British America form but a small part of the Colonial Empire of Great Britain, and that whatever may be the case in those colonies, the Governor of British Guiana, or Cape Colony, is no mere puppet forced to obey those whom he professes to govern. Senior has contrasted the wisdom of the ancient system of colonisation with the folly of the modern. The ancient Greek colonies were, he tells us, from the first, independent of their mother cities, and were governed solely with a view to their own welfare instead of being treated as conveniencies for the mother city. It may be doubted, however, whether the independence which the Greek colonies enjoyed was due to any greater liberality on the part of the ancient Greeks than has been displayed by modern nations. The States of ancient Greece were very small, and a colony planted in a good situation required no long time to make such progress as to rival and outstrip its parent, and the independence which many of them enjoyed was simply due to the

inability of their mother cities to control them. It is well known that the Peloponesian war originated in the attempt of Corinth to exercise authority over its colony Corcyra. The weakness of Spain has been the principal cause of the emancipation of her colonies on the Continent of America, but it is remarkable that the opportunity for obtaining independence which was afforded by the condition of Spain at the commencement of the 18th century was not seized by her colonies. During the war of the Spanish Succession, nothing could have been easier than for Mexico to make itself independent of Spain, and yet this important colony accepted the King whom the war placed on the throne, although during its continuance no authority was actually exercised in Mexico by either of the rival claimants. The Mexicans governed themselves as they could during the struggle, and when it was over, acknowledged the Governor who was sent out from Spain. Spain was not weaker at the commencement of the 19th than at that of the 18th century, but her colonies had become stronger, both absolutely and relatively to the mother country. The establishment of Joseph Buonaparte on the throne aroused a resistance which the success of Philip V., or the Archduke Charles, had never provoked; and even after Ferdinand VII. had been restored the colonists continued their struggle for independence, which was at last crowned with success. It has yet to be seen what amount of progress British Colonies will make before they feel themselves competent to manage their own affairs without dictation from the other side of the globe, but it is satisfactory to observe that every effort is now made to fit them for independence by entrusting them with a constantly increasing share in their own government. By pursuing this course, English statesmen are returning to the path which was followed by their predecessors in the 17th century, who always allowed the American colonies to make laws for themselves with the vague proviso that there should be nothing in them repugnant to the law of England. A somewhat curious instance of the modern notion on this subject was afforded on the foundation of South Australia, when Parliament provided that the colony should have a local legislature as soon as its population amounted to 50,000, but until that number was reached it should be under the control of a Governor sent out from England. In the time of the Stuarts a charter was granted whenever a few hundred emigrants could be got together to establish a colony, and the passengers who were taken out by the "Mayflower" would have been astonished if they had been told that they were too few to be able to keep themselves in order. While the sentiment remains in vigour which prompts the retention of colonies, there will always be theories to prove that such a course is profitable, but the reasons will vary according to the Economic knowledge of the time.

The reason which was formerly most generally given to prove the utility of colonies, was, that they promoted the trade of the mother country. Statesmen, however, were not so thoroughly convinced that this result would follow that they could afford to dispense with attempts to force a trade with the colonies, and did not think that national predilections would induce colonists to buy the products of the mother country when they could obtain foreign products at a cheaper rate, but they thought it necessary to prevent them from buying certain articles except from the mother country. As a compensation, the mother country gave the colonies a monopoly in its market for the sale of certain kinds of raw produce. Having thus compelled the inhabitants of both countries to carry on a certain trade, statesmen would boast of its amount as showing the importance of colonial possessions, quite overlooking the fact that, if no such restrictions had been imposed, the wants of the consumers would have been quite as well, and probably better, supplied through the operation of Free Trade. As a sample of the views which are even now entertained on this subject, I may refer to a paper by Mr. A. Hamilton,* written in order to show that the retention of her colonies is profitable to Great Britain. The method by which he endeavours to demonstrate this is simple enough, for it consists in counting the whole amount of British exports as an addition to the wealth of the country, and on this assumption the colonies certainly contribute largely to the wealth of the mother country. He says, "In the first place, then, it may be well to bear in mind that the benefit of our foreign and colonial trade is not confined to the mere profit of the merchants exporting, as is too frequently assumed, but consists really in the sum total of the exports of British produce and manufactures; so that when we find their total value amounted for the year 1871 to no less than £222,000,000 sterling, we are to consider that sum as in point of fact constituting so much of the wages and profits or aggregate income of the people of this country, the foreign and colonial trade being the source from whence so much of their means of livelihood, or daily bread, is derived. Payment is received in the commodities imported in exchange for our produce exported, and it is on those operations that our merchants receive their profits. Of the large total just mentioned, our colonies, possessions, and dependencies contributed £51,000,000 sterling; and, as it is important that this amount shall be shown to be so much added to the aggregate earnings of the people of this country, I shall follow up the subject in some detail. This is self-evident as to exports of purely home produce, such, for

* "On the Colonies," Journal of Statistical Society, 1872.

example, as Birmingham hardware: from the digging-out of the metal until it is smelted, manufactured, packed, conveyed by rail, and stowed on board a ship, all the profits, commissions, and wages arising from those operations are so much added to the earnings of the manufacturers, agents, artisans, and labourers who did the work; in short, all costs and charges, until shipped, are defrayed by the merchant who exports the goods. The same thing applies to goods which are manufactured from imported raw materials, though at first sight it might be contended that we should deduct the value of the raw material." (pp. 108, 109.) There is an obvious fallacy pervading this passage, which consists in the belief that all which is produced for exportation is an addition to the production of the country. Mr. Hamilton does not seem to have thought it worth while to inquire how the mere fact that commodities were demanded from abroad would enable them to be produced. Had he turned his attention to the subject, he would have found that a pre-existing capital is necessary to carry on production, whether for home consumption or for exportation. Let it once be admitted that it is the amount of capital in a country which determines the amount of its production, and it becomes obvious that the extent of the foreign trade only indirectly affects production by facilitating the growth of capital. Commodities are produced for the foreign market, not because there would otherwise be no production, but because this course enables the wants of consumers to be supplied with less labour than would otherwise be required. If our trade with our colonies were entirely cut off, but the amount of our capital remained undiminished, there would still be the means of employing as many labourers and capitalists as before, though their industry would be turned in a different direction. Instead of producing articles for exportation, they would have to produce articles to take the place of those which are now imported from the colonies. Things would not be the same as before, for it would be difficult to find an adequate substitute for the sugar, tobacco, and other articles which can be easily produced in the colonies; and wool, and many other substances which could be produced at home, would require the expenditure of much more labour. This difference would, however, be the whole of the loss, and though it is impossible to estimate its amount, it would certainly be much less than Mr. Hamilton would have us suppose. It is important to bear this in mind, because if his reasoning were correct it would go far to justify the retention of differential duties favouring the colonies at the expense of foreign countries. If the object to be attained is the increase of exports, a fiscal system which compels a country to confine its dealings to a limited market is one deserving of adoption. If England is obliged to buy its

sugar from Jamaica when it might buy more cheaply from Brazil, it will, *cæteris paribus*, export a larger quantity of goods to Jamaica than it would to Brazil if trade were free. But this increase of exports is not an increase of wealth, but simply a proof that the nation has paid a high price for what might have been procured at a low one. It might as well be supposed that an increase in a man's expenditure was an addition to his wealth, and that the high price of coal was a benefit to London householders. Mr. Hamilton goes on to contend that, as raw material when imported is paid for by British exports, the colonies may be fairly credited with the whole amount of what is exported to them, even though some portion of it was not actually produced in Great Britain. It is, however, unnecessary to say anything more on this head, as the argument is the same as that which has been already considered. He admits that the colonies only take a quarter of the exports of Great Britain, and this naturally suggests the objection that exportation would continue even though they became independent. He meets this by various arguments, contending that young men of the mercantile classes prefer settling in the colonies to settling in a foreign country, and that such persons are the chief agents in extending British trade. He tells us that the colonies which have been taken from France and Holland now import more from Great Britain than from the countries to which they were formerly subject, and that, in brief, "the trade follows the flag." But with regard to this portion of his argument it is well to bear in mind that the exports to Mauritius and Cape Colony represent the expenditure of the Home Government, as well as the amount which is really purchased by the colonies. Where civil or military establishments are maintained at the expense of British taxpayers, they are paid for by the export of British commodities; but the increase of the exports merely indicates that the colonies have become a greater burden to their possessors, and not that they yield a profit. Where no such expense is incurred, there is nothing in the nature of separation which should make it lead to either an augmentation or a diminution of the trade between the colony and the mother country. If trade be free, the inhabitants of both countries will still continue to buy in the cheapest market; and the same motives which fostered a trade during the continuance of the political connexion will operate after its termination. It has been abundantly demonstrated that political animosity has very small power to interfere with trade between two countries; and even if colonial independence is only achieved after a bloody struggle, there is no reason why the commercial relations of the two countries should be disturbed. A signal instance is afforded by the trade between Great Britain and her American colonies before and after the War of Independence. I cannot

do better than quote the remarks of the late Mr. Herman Merivale, whose work on "Colonisation and Colonies" is so valuable a repertory of facts and reasonings connected with this subject:—"Before the American Revolution we possessed colonies even more extensive and valuable than at present, yet the trade with those colonies, though a thriving one, never seems to have been in a wholly satisfactory state. It was subject, like all other trades involved in prohibitions, to the fluctuations arising from that uncertainty of supply and demand which is produced by monopoly. And during the latter years of the connection, mutual jealousies and antipathies more powerful even than self-interest nearly reduced it to ruin. As soon as the connection was severed, What was the consequence? Did the industrious colonists become 'sluggish foreigners,' and cease to supply goods fast enough to meet the craving of the Liverpool and London markets? Was our profitable colonial trade turned into a losing foreign trade? All the world knows on the contrary, that the commerce between the mother country and the colony was but a peddling traffic compared to that vast international intercourse, the greatest the world has ever known, which grew up between them when they had exchanged the tie of subjection for that of equality." (New edit., 1861, p. 230.)

Yet the animosity which the struggle generated still survives after the lapse of a century, and De Tocqueville has remarked, that while no two nations hate each other more than the English and the Americans, there are none which carry on a greater trade with each other. Mr. Goldwin Smith, whose "Empire" is a vigorous protest against the retention of colonies by Great Britain, has cited this instance in support of his argument. Mr. Hamilton replies as follows:—"But it is alleged that our trade with the colonies would not be affected were they at once to be declared independent States, and Mr. Goldwin Smith has argued that it would rather be increased thereby. He appeals to the example of the United States in support of this opinion, but overlooks the totally different circumstances under which our trade with the colonies is now carried on as compared with the jealous monopoly which existed when the United States became independent. I need scarcely recall Lord Chatham's well-known declaration that 'the colonists had no right to manufacture even a nail for a horseshoe.' They were bound to buy from the mother country whatever they consumed, and to sell to her whatever they produced. It was not in consequence of their separation that our trade with the United States subsequently increased, but it was because, together with independence, they established freer commercial relations with other countries as well as with ourselves. Now, as our colonies already enjoy the advantages of Free Trade to the fullest extent,

except so far as it may be stinted by tariffs of their own imposition, and as they also enjoy the most absolute control of their own affairs, it is manifest that there are no grounds for expecting a rapid increase in their trade such as followed on the independence of the United States." (pp. 111, 112). But it is not essential to Mr. Goldwin Smith's argument that trade should exhibit so large an increase as in the case of the United States. The American instance proves that separation does not necessarily entail any diminution of trade, and the burden of proof lies on Mr. Hamilton when he contends that it would produce this effect. He tells us that the great increase in this instance was due to the emancipation of the colonies from the protective system which had been enforced by the mother country, and no doubt this was one of the causes which contributed to the result. But the fact that such a system was so long maintained shows that dependence renders possible the adoption of pernicious measures which would not be adopted by the colonists if governing themselves, and the essence of the argument is, that the colonists can manage their own affairs better than can be done by the statesmen of the mother country. Many British colonies, as Mr. Hamilton himself incidentally mentions, now maintain protective tariffs, and it is quite possible that they might be induced to adopt a more liberal policy if they became independent States and were solicited by the ambassadors of foreign powers to conclude commercial treaties. Complete independence would facilitate the adoption of better laws, which would tend to promote the prosperity of the colonies in industrial as well as other respects, and whatever increased their prosperity would increase their trade with Great Britain as well as with other countries. When the amount of the colonial trade is adduced as a proof of the utility of colonies, it seems to be forgotten that the advocates of separation do not question the benefits derived from trade with the colonies, but merely desire to put an end to the political connection. Of course, it is an advantage to Great Britain that Australia and New Zealand should be peopled by an industrious and enterprising race who are willing to satisfy the wants of British consumers at a cheaper rate than could otherwise be obtained, but it does not follow that these countries must remain subject to Great Britain in order to fulfil this function. The maintenance of Imperial authority in Australia has certainly done something to isolate the different colonies which have been planted on its coast, and has thus rendered possible the adoption, by each, of protective tariffs which militate against the industry of the rest. If Australia were independent, it can hardly be doubted that it would form one Federation, and that one article of the Constitution would provide that the produce of each member of the Union should be

admitted into all the others free of duty. A proposal has been made to form them into a Customs Union, but it was at first resisted by the Home Government as being contrary to certain treaties which are still in force. The objection has been withdrawn, but the colonies seem to be in no hurry to avail themselves of the liberty which has now been granted them. The mere fact that they have for so long a time been united by no other tie than that of common dependence has isolated them to such an extent that none of their inhabitants considers himself as an Australian, but each is a Victorian, or a Queenslander, etc. The formation of a Customs Union similar to that which has so long existed in Germany would be a great benefit to Australia, even if it were accompanied by a protective tariff directed against foreign producers. The industrial benefit which the country would derive from its formation would probably outweigh the disadvantage of a tariff as far as the increase of its trade with England was concerned, and here may be seen a case in which independence would promote trade by limiting the domain of protection. Mr. Hamilton values the colonial trade because a larger proportion of the shipping employed in it is British than is the case in the foreign trade. If the colonies became independent, they might, as he suggests, pass navigation laws which would interfere with this branch of British industry; but, on the other hand, it must be remembered that our own navigation laws are not yet wholly repealed, and that an enterprising American who wished to carry on the mail service between his country and Australia was prevented by them from doing so. If any of the colonies became subject to a foreign power, they might no doubt come under the operation of similar laws; but the utility of commerce consists not in providing employment for ships, but in satisfying the wants of consumers. The close monopoly of the trade with its East Indian possessions so long maintained by Holland did not prevent other European countries from procuring the spices and other produce of that part of the world, for the Dutch only wished to obtain them in order to sell them again at a profit, and self-interest induced them to do what would have been done by others if the trade had been thrown open. Merchants are very apt to commit the mistake of supposing that the opening of a new trade route is the same thing as an addition to the trade of the world, and to forget that two countries may supply each other's wants although no inhabitant of the one has ever penetrated to the other. Many merchants have been eager to induce the Indian Government to open up a new route for trade between India and Western China; and, in order to make out as strong a case as possible, they expatiate on the gains to be derived from "tapping" a country which is a seat of an ancient civilization containing

300,000,000 of inhabitants, &c., &c. They forget that trade is already carried on between China and England, and that the utmost that the opening of a new route could do would be to facilitate the exportation of some of the products of Western China which cannot profitably be sent to Canton. It is very doubtful whether any large addition could be thus made to British trade, for the new route would at best involve a long and laborious land journey. At all events, there is no occasion to call in the 300,000,000 of Chinese to assist the argument, for only a very small portion of this vast number will ever send their produce by the proposed route. English goods find their way to Central Asia through the hands of Russian merchants, and it is not necessary that Englishmen should be allowed to trade direct with the Tartars in order that the two races may supply each other's wants. Travellers who visit hitherto unexplored districts in Africa or Asia have often been surprised to meet with handkerchiefs and such like articles bearing the familiar marks of English manufacturers, and doubtless many of the ivory-boxes which may be seen in English houses are obtained from elephants slaughtered in regions never visited by English traders.

One argument which is commonly adduced in favour of the retention of colonies, is, that they afford a field for emigration ; but, unfortunately for those who make use of it, the fact is that there is a much larger emigration from this country to the United States than to all the colonies put together. Mr. Hamilton is aware of this, and tells us, that while the total number of emigrants to all the colonies amounted, in 1870, to 60,865, the number who went to the United States was 196,075. The disproportion is not so great if we take the long period 1815-70, during which 2,540,965 persons emigrated to the colonies, while 4,472,672 went to the United States ; but the balance is still in favour of the latter. Whatever may be the case with regard to young men of the mercantile classes, it is clear that emigrants, as a body, prefer the United States, and do not highly appreciate the advantage of being able to find a new home without forfeiting their former allegiance. Nor is this surprising, for many of those who are compelled by circumstances to leave their old homes feel a desire for novelty, which finds some satisfaction in settling under the protection of another government. It does not, however, appear that political predilections have much to do with the choice of an emigrant, and the partiality shown to the United States can be explained by the comparative cheapness of the journey, and the attractions which a populous and wealthy country must always possess. Emigrants from Europe are not usually fit to undertake the actual work of clearing the wilderness, which is accomplished by natives, or by emigrants who have long been settled in the

country, and the new comers fill the places left vacant by those natives who have moved into the interior. It is easy, then, to understand how the United States, as the more populous, should attract a larger number of emigrants than British North America. Mr. Hamilton is not satisfied with the direction which emigration takes, and contrives to found an argument in favour of his view on the very fact which tells so strongly against it. He observes: "The bulk of the Irish emigrants go to the United States, where they not only add to the strength of our rivals, but bear with them a feeling of animosity against us so bitter, that the necessity of securing the Irish vote is the main source of all our troubles with our kinsmen in America. Now, it is a strange fact that the Irish who settle in the colonies become comparatively loyal subjects; and it should therefore be the object of the Colonial Office, if possible, to divert some portion of the Irish emigration to the colonies, instead of looking on helplessly while it flows to the United States." (p. 115). He thus proposes a somewhat roundabout way of curing Irish discontent. Instead of reforming the Government of Ireland so as to satisfy its inhabitants, we are to keep a large portion of the world in subjection in order to provide new homes in which Irishmen may live contentedly. He does not inquire what is the reason of the strange fact that Irishmen become loyal when they have emigrated to the colonies, and has no suspicion that it may be owing to the establishment of local legislatures. The one demand which the Irish have constantly repeated, is, the re-establishment of an Irish Parliament, and to grant this request would be a more rational mode of conciliating them than the retention of colonies. How the Government is "to promote emigration to the colonies," Mr. Hamilton does not explain, but he apparently considers that it might do so if it had retained the disposal of the waste lands, for he observes, "Unfortunately, the Colonial Office have parted with all control over the waste lands without considering that the people of this country had an interest therein, and that for their benefit, jointly 'with that of the colonists, the waste lands should have been held in trust.'" (p. 116). What he regrets, is, that a matter which so vitally concerns the interests of the colonies should have been left to be regulated by the local authorities instead of by an office located at the other end of the world. The Colonial Office formerly undertook this task, but without affording any greater encouragement to emigration than is given under the present system; and then, as now, the United States exercised a greater power of attraction. The Colonisation Society, of which Wakefield was a prominent member, attached great importance to the adoption of a right system in disposing of waste lands, and their views eventually received partial recognition from the Colonial Office, and, as compared with those

which were formerly acted on, they must be regarded as enlightened. The old system, which was tried for the last time on the foundation of the colony of Western Australia, consisted in the gratuitous distribution of the land in large blocks among a few settlers, who, it was intended, should become the landlords of the new country. On this occasion, the emigrant to whom the first grant had been made chose his block—which was a large one—in the form of a semicircle, of which the landing place was the centre. The person who had second choice chose his land in a larger ring round the first block, and the third grantee chose his in another ring still further inland; while those who had received no grants were obliged either to come to terms with the landlords, or to go for a long distance into the interior to find unappropriated land. Many of them chose the latter alternative, and even perished with starvation rather than settle down as tenant-farmers on the English type. The representatives of the original grantees still hold extensive estates, which they are for the most part unable to cultivate, but unwilling to sell for fear of losing the chance of high rents which the lands may some day bring in, and the existence of this class has always been regarded as one of the obstacles to the progress of the colony. Its importance has no doubt been exaggerated, for there are many physical causes to explain the backwardness of Western Australia. A poisonous plant which grows abundantly acts as an impediment to sheep-farming, and effectually prevents the establishing of those extensive runs which contribute so much to the prosperity of New South Wales and Victoria. The plant can be extirpated by slow degrees, but sheep cannot be allowed to roam freely over unenclosed districts, and the progress of sheep-farming, being limited by the extension of the population, is necessarily slow. The colony does not possess any agricultural or mineral resources which could counterbalance its disadvantages as a pastoral country; and, in fact, it was not selected because it offered a favourable field for colonisation, but merely because the English wished to establish their right to the whole Continent. But its natural disadvantages have been aggravated by the system which was adopted on its first foundation, and even now its inhabitants are with difficulty struggling to liberate the land from the fetters by which it has been confined. The disastrous failure of the first attempt to establish this colony led Wakefield and his associates to attempt to devise a better system. They did not, any more than the officials whose policy they assailed, consider that the colonists were capable of managing so important a matter as the distribution of waste lands, but they denounced the arbitrary conduct of the Colonial Office and advocated the establishment of colonial legislatures. This last suggestion has been generally carried into practice, and it has

neutralised the effect of their other proposals, for the limits prescribed to the power of these local legislatures have been long since swept away, and whatever provisions have been found inconvenient have been done away with by the colonists themselves. The chief feature in Wakefield's scheme, and that which afforded the most striking contrast to the previous policy of the Government, was, that land was offered for sale at a high price which was the same whatever the quality of the soil or the advantages of position. High price was fixed with the object of preventing labourers from purchasing land until they had worked for some years in the employ of a capitalist, for it was taken as an axiom by this party that the agricultural system pursued in England, under which farming is carried on by capitalists employing labourers, must be also the best for a new country. Wakefield was well aware that it was not enough to fix a high price in the first instance unless measures were taken to prevent the purchasers from subsequently selling at a low price, and he suggested elaborate machinery to prevent them from doing so.* These suggestions, however, were not adopted, and, indeed, the system actually adopted had very little in common with that which Wakefield proposed. Perhaps the most remarkable divergence between the theory and the practice was afforded by the conduct of Lord Grey, who sent out orders that a high price should be charged for pastoral land, seeming not to be aware that the scheme was only intended to apply to agricultural land. Wakefield's object being to prevent labourers from acquiring land, he laid great stress on the necessity of fixing a price which should be sufficient to attain this end, and he was often taunted with his inability to state what was this sufficient price. He resented the challenge as a mere trap, for, as he justly contended, a price which would suit one colony would not suit another, nor would the same price suit the same colony at different times; but though this is true enough, it may be doubted whether it would have been possible for any officials to vary the price so skilfully as to attain the object, especially as that object was such an unpopular one as the exclusion of the labourers from the possession of the soil, even though it were intended to be only temporary, must always be. The foundation of the colony of South Australia was chosen as an opportunity for giving the system a trial, and, according to some writers, it proved a great success. It is true enough that the colony is now flourishing, and that it has made more progress than its predecessor on the Western Coast, but this does not show that the system is to be credited with the result. The effect of fixing an uniform price for land was to encourage speculation, for, as the lots were sold in England, the

* See his "View of the Art of Colonisation," 1849.

purchasers could obtain them without having the slightest notion what the character of the land would be. The money obtained by these sales, which soon amounted to a considerable sum, was spent, as according to the scheme it ought to be, in bringing out labourers; and in this way a larger number of emigrants were brought out than the resources of the colony were equal to maintaining, and the result of this reckless expenditure was, that within a few years of its foundation the colony contained 2,000 paupers. This result may be fairly ascribed to the system which regulated the number of emigrants in accordance with a circumstance which had so little connection with it as the amount of the fund derived from the sale of land at a most arbitrary price. After a crisis in which the Government of the colony became virtually bankrupt, things began to mend; but the price originally fixed for waste lands has not been maintained, nor have the proceeds of the sales been applied to the promotion of emigration. The question how best to dispose of waste land is one which always presents great difficulty in new-settled countries; and both in the United States and in British Colonies it has been generally found more convenient to adopt an uniform price. At first sight it would seem that the simplest course would be to put up the land to auction, and to let competition settle the price; but in practice this has been found to be a most inconvenient plan. The intending settler is obliged to examine the district where he intends to settle, and if, after having selected a piece of land, he is obliged to bid for it at a public auction, he is exposed to the competition of adventurers who have no real wish to settle on the land, but whose sole object is to extort money from genuine settlers by threatening to run up the price if they are not employed as agents to effect the purchase. Even under the most favourable circumstances, public auctions are exposed to this disadvantage, and where the article to be sold is waste land, the disadvantage becomes too serious to be disregarded. The price at which land is offered for sale in the United States is so low that it hardly does more than cover the expense of the survey which the Government must undertake before it can dispose of the land. Yet even this low price is not always demanded, for of late years the Government has agreed to make gratuitous grants of small blocks of land under such conditions as to secure that the grantee shall really occupy and cultivate the land which he receives. This liberal policy has been gradually imitated, not only by Canada, but by other British Colonies, and has generally proved successful. As long as there was a marked difference in this respect between the policy of the United States and that of British Colonies, it must have contributed to the preference for the former country which emigrants exhibit, and there is some reason for McCulloch's observation, that Wakefield's scheme would deserve

commendation if it was intended to turn the tide of emigration from the colonies to the United States. The attempts of colonial legislatures to prevent land from accumulating in a few hands have not been more successful than is usually the case with legislative efforts to direct the course of industrial development. In those parts of Australia where sheep-farming is the principal industry of the people, the land is held in immense estates, because a squatter who owns a large number of sheep can hold out better against the fluctuations of the wool market than his poorer competitors, and is able to buy them out or to survive while they fail. It is in vain that estates are distributed among several children on the death of the proprietor, for the process of re-union goes on as fast as that of division. As agriculture succeeds to pasture, the size of estates is materially reduced, for agriculture cannot be carried on with profit on a very large scale, but the squatters are still able to oppose a formidable resistance to the extension of tillage. Some Australian legislatures have conferred on intending farmers the right of selecting a block of land in the midst of a squatter's holding, and of settling on it against the will of the former holder. Yet even this provision, stringent as it seems, is in many instances rendered nugatory by the shrewdness of the squatters. As the same block cannot be selected twice over, and as the right of selection belongs to every adult male, the squatters frequently contrived to get all the land in their holding appropriated by dummy selectors, and thus really kept it in their own possession. A lively sketch of the struggle which is carried on between the squatter and the free selector is contained in Mr. Trollope's work on "Australia and New Zealand," in which is displayed the same power of narration and description of character which has made its author so popular as a novelist. It is curious to find that the internecine war which is waged in England between the game preserver and the poacher has its counterpart in the strife between the Australian squatter and sheep-stealer. The public sympathy which renders it so difficult to obtain the conviction of poachers is enlisted on the side of sheep-stealers, and squatters are exposed to serious loss through the repetition of petty depredations. In the United States, where sheep-farming does not form a prominent branch of industry, it does not give rise to a class of large landed proprietors, and great care has been taken to prevent colonisation companies from intervening between the settler and the land which he wishes to purchase; but even in the United States, large estates come to be controlled, if not actually owned, by a few men, and the directors of railway companies are able to exercise the same sort of influence as the great landed proprietors exercise in England. In order to promote the extension of railways, the Government confers on the

company which undertakes to develope a new region a considerable extent of land on each side of the line, and though it prevents the establishment of a monopoly-price by retaining the alternate blocks in its own possession, the great wealth which is thus conferred on the companies tends to increase their influence, which is already greater than is compatible with the welfare of the community. Already the leading railways are able to control the legislatures of the States through which they pass, and it is feared that Congress itself will ere long fall under their domination; while those who disapprove of this state of things can suggest no better remedy than the purchase of the railways by the Federal Government. The advantage of emigration to the emigrants themselves is obvious enough, for it enables them to find a more profitable employment than they could obtain at home; and unless it produced this result it would not be persisted in. In a new country there is a greater abundance of fertile land, and labour is consequently more productive. There is a greater abundance of raw produce, and the inhabitants are less exposed to the evils of a scarcity of provisions than those of a thickly-peopled country. Being more widely scattered, the people derive less benefit from the division of labour, but they are thrown more on their own resources, their general intelligence is quickened, and they suffer less when unexpectedly deprived of the occupation to which they have been accustomed. The comparative importance of the labouring classes in such a country makes it a desirable residence for the labourers of old countries, and it is from this class that emigrants are principally derived. To the wealthy capitalist, residence in a colony does not offer much attraction, and such persons usually prefer to return to Europe after their fortunes have been made. The advantage of emigration to the country from which it proceeds is not so clear, but is commonly supposed to consist in the relief afforded by the withdrawal of numerous competitors for employment. If emigration diminished the population of a country without affecting the amount of its capital, there would, of course, be a larger quantity assigned to each of the persons among whom it is divided; but, as a rule, emigration does not proceed on so large a scale as to diminish the population of the country. The case of Ireland is quite exceptional, and does not show that emigration has this effect, but only that some other cause was at work to prevent population from making good in one way what was withdrawn in another. England and Germany, which are the principal sources of emigration, are countries in which population is steadily increasing, and the coincidence will not surprise any one who is acquainted with what has been written by Malthus on this subject. If unchecked by the difficulty of procuring food, the population

of any country would double in twenty-five years, and the fact that the population of England does not increase at this rate shows that some cause must be at work to check its growth. It is easy to see that the quantity of food in England could not be doubled in twenty-five years without resorting to soils which lie outside the limits of the island, and emigration is, in fact, the means by which the population of England is enabled to increase as fast as it does. The emigrants settle in countries which are well adapted for the production of food, and they export their produce to the country which they have left, and thus enable it to support not only those who take the places which they have left vacant, but others in addition. Emigration affords in many cases a convenient relief for temporary distress, but it cannot proceed on such a scale as to relieve all the distressed persons whom an old and populous country contains. Distress in many cases is due to old age or bodily infirmity, which are sufficient to prevent the sufferer from entering on a new career in a strange land; and even where there is no such impediment, the mere fact that poverty has been long endured does much to unfit a man for success in life. The attempts which have been made to relieve the workhouses by what has been called "the shovelling out of paupers" into the colonies have not been attended with much success, and the cry is frequently heard from the colonies that they want no more pauper emigrants.

The interest of the mother country and of the colonies alike require that the emigrants should be such as will make the most efficient labourers, and should repair to those districts where their labour can be employed to the best advantage. This end is most likely to be attained when the emigrants go out at their own expense to the districts respecting which they have heard the most favourable accounts. This is generally the case with those who proceed to the United States, the Government of which country takes no trouble to attract emigrants, but is content with offering land to them on the same terms as to native settlers. The Russian territory affords a field for emigration quite as extensive, and in many parts equally favoured by nature, as that which is afforded by the United States; and yet the desperate efforts of the Russian Government to attract emigrants from Germany have been attended with such small success as to appear ridiculous when contrasted with the passive attitude of the American Government. Some British colonies occasionally endeavour to attract more emigrants than would naturally resort to them if no artificial inducements were held out. In some cases, as when a railway is constructed, it is necessary to bring over a body of labourers who are competent to perform a particular kind of work; and when the State brings out men for such a purpose, it only

does what a company would do if it had to construct the railway or other public work. But some colonies have not confined their efforts to such cases, and when they have attempted to attract emigrants by offering to pay the whole or a portion of the passage money, they have only obtained an apparent success. The Queensland Government offered more favourable terms than the other Australian colonies, and the consequence was, that persons who wished to emigrate to Victoria went first to Queensland, and then on to their real destination. The efforts of Western Australia to retain new comers in spite of the superior attractions of the neighbouring colonies have been equally unsuccessful; and if Canada were to imitate the example, it would merely serve as a stepping-stone between England and the United States. It is in vain that emigrants are required to sign contracts to stay with their employers until they have worked out the whole of their passage-money, for they, as a body, do not recognise the duty of fulfilling these contracts, and the law is practically powerless to compel European labourers to work against their will. With the more submissive races of India, China, and Polynesia, it is possible to adopt more stringent methods of coercion, and large portions of tropical colonies are supplied with labourers from these regions who are compelled to work for years under the same employers, but the importation of these labourers can hardly be counted as emigration, for they do not intend to settle in the country to which they come. Emigration, if it is to confer much benefit on the world, must be undertaken by enterprising men who will reclaim the wilderness, and it is in performing this work that the English race has attained so high a pre-eminence over all its competitors. It is not sufficient that a colony should belong to Great Britain in order that it may absorb a large number of emigrants, for there are many Dependencies of the Crown, such as Jamaica, Mauritius, and Prince Edward's Island, which attract no numbers worth mentioning. There are some, such as Tasmania, which, although they have been long colonised, do not increase their population, and there are others which attracted little attention until some discovery was made which contributed to their industrial development. The effect of the gold discoveries in encouraging emigration to Victoria is well known, and a more recent instance of the same kind has been afforded by the discoveries of diamonds and gold, which have attracted emigrants to the Cape of Good Hope, and have been the means of extending the British dominion in South Africa. The ill success of the French and the Spaniards in colonisation is in great measure accounted for by the resistance of the native races, which have been better able to contend with the invaders than those whom the English have encountered. That English dominion is not essential to success in

colonisation is proved by the example of the United States, and as the advantage of colonisation consists in the extension which it gives to production and to trade, it is equally profitable whether the new countries are or are not in the condition of dependent provinces.

There is one way in which the dependents of a colony may serve to promote emigration of a certain kind, but it is a way which does not confer much benefit on the colony, whatever it may do for the mother country. The Home Government may strive to rid itself of troublesome criminals by transporting them to a colony and compelling them to remain there for a longer or shorter period. The American colonies were formerly used for this purpose, and their emancipation was the occasion of inducing the British Government to find a new region which could be used for a similar purpose. Australia was selected, and was for a long time used for scarcely any other purpose than that of transporting criminals. A colony consisting for the most part of such characters could not be left to govern itself, and this was one reason why the Government of the Australian settlements was framed on a much more despotic type than those which had been established in the American provinces. If transportation be regarded solely with a view to the interests of the criminals themselves, and of the country from which they come, there is much to be said in its favour. It enables the country to rid itself of many dangerous characters, and it affords to many criminals an opportunity for reforming and making a fresh start in life without being hampered by old associates. But when transportation has been carried on systematically for a number of years, its advantages are far outweighed by the injury which it inflicts on the young colony which serves as its field. As soon as a small body of respectable settlers has been collected, they begin to find that their progress is very much impeded by the numerous crimes committed by the transported criminals, and though it does not appear that these offences are of a heinous nature, the number of them is, as might be expected, considerable in proportion to the population. Nor is this all, for the very fact that Australia received large numbers of convicts created a prejudice in the public mind against emigration to the country, many respectable people objecting to go out and live among convicts, and many more being deterred by the fear that others would regard their conduct as disreputable. It is greatly to the honour of the Colonisation Society that they steadily set their faces against transportation, and that their agitation contributed much to its gradual abandonment. After New South Wales and Tasmania had been abandoned as convict settlements, the British Government did not make any further attempt to establish a new one, and the last colony which served this

purpose, Western Australia, was selected at the request of its own inhabitants. After struggling for twenty years against the difficulties of their situation, the people of Western Australia reluctantly determined to ask the Home Government to assist them in their efforts to obtain emigrants by transporting convicts to the colony. The request was acceded to as might naturally be expected, and the colony thus received an addition of ten thousand inhabitants, all of whom were adult males. The labour of the new comers proved very useful to the country, for it was chiefly employed in making roads, which were sorely needed, and if the wishes of the inhabitants had been allowed to prevail it is probable that transportation to this district would have continued to the present day. But the other Australian colonies objected to it, on the ground that it exposed them to the intrusion of convicts who had completed their sentence, and that these persons were most undesirable intruders, and their remonstrances against the system were so strong and so persistent that it was abandoned after ten years. What Western Australia has gained in material prosperity by the importation of convicts, it has probably lost by the moral disadvantage which the system has brought with it. The convicts form so large a proportion of the population as to give a peculiar character to society, and the fact is made an excuse for refusing to the colony the more extended measure of self-government which has been conceded to the other portions of the Continent. It also contributes to restrain emigrants from resorting to it, and thus tends to prevent that increase of population which it was intended to promote. That a colony should be resorted to by persons who have misconducted themselves in their own country is a circumstance of which its inhabitants cannot reasonably complain, for every country is exposed to this sort of social transportation. Thackeray says, that as a new colony is soon furnished with specimens of the animals which abound in the mother country, so the British colonies were furnished with specimens of black sheep from Great Britain, and complaints may often be heard from the colonies that the same process is still going on. This, however, only implies that in a populous country like Great Britain there are many persons who find it convenient to repair to another country where their antecedents are not known, and Great Britain itself is exposed to similar intrusions. Juvenal described Rome as the common resort of the outcasts of all other cities; and Johnson, in imitating the satire, described London as "the common sink of Paris and of Rome;" but to be made a receptacle for those who have carried their misconduct to such lengths that they cannot be allowed to go at large in their own country is a position which no independent country would submit to, and one which would go far

to outweigh all the benefits which can be supposed to flow from dependence.

The advantage of protection against foreign enemies is one to which great importance is attached by those who defend the system of colonial dependence. When two States seek to establish their dominion in the same district, the settlers may derive protection from the one against the attacks of the other; but, as in either case, a dependent position must be submitted to, the protection which is thus afforded is of little value as far as the argument is concerned. If neither government wished to have colonies, there would be no occasion for either to protect them against the attacks of the other, and the independent colonies might continue to enjoy peace. As different nations have pursued different lines of policy in regard to their colonies, it has been better for the world at large that a considerable territory came under the dominion of England, which pursued the most liberal policy, rather than under that of Spain, which strove to prevent all intercourse between its colonies and foreign countries. The exclusive policy, which was carried to great lengths by other countries besides Spain, furnished some justification for the efforts of the English to obtain some colonies with which they could trade; but the question which has now to be decided is not whether the acquisition of colonies was justified in times past, but whether their retention is any longer just or expedient. As colonies frequently become involved in war by the quarrels of their mother country with other States, they lose as much in one way as they gain in another by being protected in a war for which their own conduct has furnished the occasion. Some of the most disastrous wars in history have originated in quarrels among colonies in which the parent States have been obliged to take part; and whether the colonies have benefited or not from the assistance which they have received, the mother countries have certainly been injured. Recent history furnishes examples of quarrels which, though they have not led to war, have had serious consequences, and which could not have occurred if a country had not possessed dependent colonies. In two out of the three cases in which judgment was given against Great Britain by the Geneva arbitrators, those of the Florida and the Shennandoah, the acts for which the British Government was held responsible were committed in the colonies, the West Indies and Australia. Had these colonies been independent, the payment of damages would have been considerably reduced; and Great Britain has thus had to pay a penalty for too greatly extending its empire. Where the war in which colonists are engaged is one which is waged against the Aborigines of the country in which they are settled, the assistance of the mother country, though it seems to be a great boon,

seldom proves to be such in reality. The knowledge that they can call in assistance when they require it renders them more quarrelsome and overbearing towards the natives, and thus encourages the very wars which the Home Government is anxious to prevent. But when this assistance has once been rendered, it becomes difficult for the Home Government to withdraw it, as the colonists at once cry out that they have been encouraged to settle in exposed districts by their reliance on the support which they formerly received, and that a new war will break out as soon as the troops are withdrawn. It was not till a most unseemly dispute had been carried on for years between the home and colonial authorities that the British Government decided to withdraw its troops from New Zealand, and even after orders to that effect had been actually sent out, their execution was delayed by the general in command for military reasons. Yet there is good reason to believe that the presence of regular soldiers was one of the principal causes of war, as the Maories entertained a peculiar aversion to them. If the accounts of the colonists are to be trusted, all the successes which were obtained were due to the local militia, and the troops sent out from England were useless as far as fighting was concerned. Yet the very men who make these statements insist most loudly on the duty incumbent on the mother country of protecting its colonies, and protest in strong and even insolent language against the beggarly policy of leaving them to settle their own quarrels for themselves. According to them, although the troops are useless for fighting, their presence in the colony inspires the natives with a wholesome dread, and even though they were never called into action, the prestige which attaches to them would prove a valuable safeguard to the settlers. Prestige, indeed, is the last card which those who enter on this line of argument have to play; and there are some who maintain that though Great Britain is materially weakened by the necessity of defending her colonies, she is strengthened by the prestige their possession gives her in the eyes of foreigners. That many foreigners do admire and envy the extensive Colonial Empire of Great Britain is probable enough; but it is scarcely possible that any foreign statesmen who would be likely to declare war against her would be deterred from doing so by the knowledge that she could be attacked in any quarter of the globe.

There is one important difference between the colonies which now form the United States and those which have been more recently founded by emigrants from Great Britain, which consists in the greater development which has been given to municipal institutions in the former case. When emigrants were allowed to settle in America and govern themselves as best they could, they naturally copied the institutions of the mother country, and, as these allowed each town and each

parish to govern itself, a similar measure of self-government was assumed by the small communities of Massachusetts and Connecticut, and the system thus initiated has been followed in the new States which have been added to the American Union. In Australia, on the other hand, where the colonies have from the first been governed by representatives of the mother country, a great unwillingness to grant municipal charters has characterised the administration, and the injury thus inflicted on the country is probably considerable. Wakefield bitterly denounced this policy, the evils of which he illustrated by the difficulties thrown in the way of the erection of a lighthouse in the harbour of Wellington, New Zealand. Had Wellington possessed a corporation, a very short time would have been required to decide on a matter of such urgent necessity; but under the system which actually prevailed at the time when he wrote, it was necessary that reference should be two or three times made to England before so purely local a matter could be settled. The late M. Jules Duval, whose "Histoiré de l'Emigration," is one of the many valuable works for which the public are indebted to the "Académie des Sciences Morales et Politiques," attached great importance to local self-government as a means of attracting emigrants, and considered the want of it as one of the principal hindrances to the colonisation of Algeria. Australia has grown up without it, and its absence has greatly contributed to sow dissension among the different parts of the colonies into which it is divided. Each colony is now provided with a legislature of its own, which is called on to decide matters which more properly belong to local municipalities, and there is a constant complaint that the district which is nearest to the seat of government gets an unfair share of attention. The remedy proposed is always separation, which in Australia means the division of a colony into two governments, and it is in obedience to such demands that Victoria and Queensland have been detached from New South Wales. The remedy requires to be repeated, for already the Northern half of Queensland thinks itself neglected, and demands separation from the Southern half, while Riverina wishes to be separated from New South Wales. If Australia had been settled by emigrants who were not controlled by any external authority, local self-government must by the nature of things have arisen, for the settlements would have been too much scattered for any large number of people to meet together, or even send representatives to manage all their affairs in common. That it is quite possible for unprotected emigrants to establish themselves in a new country is shown by the experience of New Zealand and of Fiji, in both of which colonisation preceded the interference of the British Government. Complaints have been frequently made of the barbarising

effects of the dispersion of the settlers, which is carried to so great an extent in Australia, and some attempts have been made to prevent it by instructions sent out from England. But, as might be expected, these have not proved successful, and as pastoral industry requires that the shepherds should be widely scattered, that system has been adopted in spite of its injurious effects on the characters of the shepherds themselves. So far as local self-government has anything to do with the matter, it tends rather to check dispersion by rendering the towns more convenient places of residence, but very little can be done by political machinery to counteract the effects of economic necessity. Such effects as local self-government can produce are of a beneficial character, and the fact that its development has been retarded by the dependence of the colonies on a remote government, affords one of the many illustrations of the evil effects of dependence.

CHAPTER XI.—PROTECTION.

OBJECT OF PROTECTION—BOUNTIES—NAVIGATION LAWS—PROTECTION IN AMERICA—UNITED STATES TARIFF—EXCEPTIONAL CASES—FOREIGN COMPETITION.

THE retention of colonies was long advocated as a means of securing to a country a trade which it would not otherwise obtain; and the method which was adopted for the purpose consisted in compelling the mother country and the colonies to deal with each other in certain articles. Those countries which had no colonies had to adopt other means for increasing their trade, or, as it has been called, protecting native industry against foreign competition. The means adopted consisted either in totally prohibiting the importation of certain commodities from abroad, or in imposing such heavy duties upon them as would practically exclude them. As both prohibition and customs duties are resorted to by some governments for the purpose of obtaining a revenue, it is not always easy to tell whether a particular duty is protective or not, and the confusion is increased by the language employed by those who, desiring to obtain the repeal of a duty, brand it with the epithet of protective. Whatever difficulty there may be in applying the principle to particular cases, the distinction between protective and other duties is theoretically clear. If a duty is imposed for the sake of obtaining a revenue it is not protective, but if it is imposed, though it does not yield any revenue, in order to prevent the people from buying a commodity from abroad, and to compel them to produce it at home, then it is protective, for its object is to protect the native producers against foreign competition. Mr. Hamilton, in the paper which was so frequently referred to in the last chapter, says:—"The colonists have been vehemently reproached with the duties which they levy on imports. These, no doubt, somewhat affect our trade, and, so far as they operate protectively, are even more injurious to the colonies than to ourselves. But we should recollect that they must raise their revenues in the cheapest and least objectionable form. The true theory of taxation is, doubtless, to raise the necessary revenue so as to press equally in all directions, and not interfere with the natural course of industry any more than if duties or taxes did not exist; but we have not, as yet, ourselves reached this abstract perfection in our fiscal regulations. We raise 20 millions sterling per annum on tea, sugar, coffee, wines, spirits,

and tobacco ; and the countries producing those articles might as reasonably complain that we are restricting their trade as we can reproach the colonists for taxing our produce." But the necessity of raising a revenue affords no excuse for imposing duties which do not bring in any money to the treasury but merely compel the inhabitants of the colonies to produce for themselves what they could obtain at a cheaper rate from England. The fact that so large a portion of the British revenue is obtained from duties on tea and spirits may furnish a ground of complaint on the part of the countries which export those commodities to Great Britain, but cannot furnish any excuse for a government which imposes on British produce duties which do not yield a revenue. Even a prohibition may be adopted, as an auxiliary, where it is sought to obtain a revenue from a particular customs duty. A considerable revenue is derived in Great Britain from a tax on tobacco, which is levied at every port at which it is imported. If tobacco were grown in any part of the United Kingdom, it would be necessary to levy an excise duty of corresponding amount in order that native and foreign planters might be placed on equal terms. It is said, whether rightly or wrongly, that it would be difficult to collect such an excise duty ; and to save trouble to the revenue officials, the cultivation of tobacco is altogether prohibited. The reason given may be insufficient, for a similar tax is levied in France without giving rise to serious complaints ; and the prohibition, no doubt, acts injuriously in Ireland, some parts of which possess a soil and climate suited for tobacco growing. But, whatever objections there may be to the course pursued, it cannot justly be called a protection to foreign producers against native competition, for it is simply adopted with a view to secure a revenue. Another instance of the same kind, which has attracted more general notice, is afforded by the conduct of the Dutch Government in regard to its East Indian possessions. It is well known that they ordered the felling of a number of spice trees, and it has been generally supposed that the object was to raise the price of spices by limiting the supply, and the act has become a stock instance of commercial Vandalism. Mr. Wallace, however, tells us, in his "Malay Archipelago," that the object of this measure was not to make spices scarce and dear, but to limit the area of cultivation in order to facilitate the collection of the tax imposed upon them. With this view, certain islands were selected for growing spices, and the trees already growing in other islands were cut down, due compensation being paid to the owners. Mr. Wallace admits that the government was not fortunate in the choice of a site, but the measure, whether prudent or imprudent, was adopted for the sake of obtaining a revenue ; and, therefore, cannot be regarded as

protective. The theory on which Protection rests, is, that the interference of government is needed in order to secure an adequate remuneration to native industry. Sixty years ago, a Committee of the House of Commons satisfied themselves that wheat could not be profitably grown in England unless it could be sold at a price equivalent to 34f. the hectolitre, and an Act was founded on their report which prohibited the importation of foreign wheat unless the price in the home market rose to that figure. This is an example of Protection, for it often happened that foreign corn was excluded for years together, and the exclusion in no way benefited the exchequer. It was ordered simply that it might enable farmers to do a profitable trade without being exposed to foreign competition. It succeeded so far that it did secure them a monopoly of the home market. Prohibitions directed against the export or import of gold and silver are generally regarded as altogether nugatory because these metals contain a great value in a small bulk, and it is very easy to elude the vigilance of Custom House officials. But the case is very different with so bulky an article as corn, which it is difficult to import with secrecy, and the demand for which is only urgent in times of great scarcity, while at such times the legal restrictions on importation are generally removed. But though the farmers enjoyed a monopoly as regarded foreign producers, their own competition was quite sufficient to keep the price of wheat far below the extravagant level contemplated by the Act; and every abundant harvest brought with it a renewal of the old cry of agricultural distress, which in the farmer's mouth meant nothing more nor less than cheap food. The Corn Laws were afterwards modified so as to admit foreign supplies when the price of wheat had reached the rate of 28f. the hectolitre, and the revenue sometimes derived a considerable addition from the duty which was levied when the ports were opened, but the object was still to protect the farmers against competition. After a memorable struggle, the Corn Laws were repealed so far that foreign corn was admitted into the country at all times on payment of a duty so small that it could not oppose any serious obstacle to importation; and, for some time after the repeal, the farmers were loud in their complaints and protestations that they had been ruined. A Protectionist pamphlet,* published soon afterwards, bewails the disastrous effects of the measure, and presents a dismal array of figures designed to prove that it was impossible for English farmers to carry on their business any longer. The fall in the price of corn is of course set down as the effect of Free Trade, no regard being had to the fact that

* Tracts on Protection, No. 7. "Is Free Trade Fair Trade?" Part I. London: Published for the National Association for the Protection of Industry and Capital throughout the British Empire.—N.D.

equally low prices had occasionally ruled during the period of Protection; and the difference between the farmer's gain when prices were high and his loss when prices were low is set down as an injury inflicted upon him by Free Trade. To the argument that the subject ought not to be looked at solely from a farmer's point of view, but that other classes ought to be considered, the following reply is made:—"In the disputes about Free Trade, those who insist upon the effect it is likely to have on agriculture are reproached for treating a grand national question in a sectarian, selfish, narrow, illiberal manner. Yet, after all, Free Trade (especially as treated of by those very men who so reproached Protectionists) is only a question between class and class. Cheapening of productions in which its action is most extensive and general, is, as we have already shown, an advantage to some classes only. Extension of commerce, increased activity, and profitableness of manufacture are class advantages; and it is a very proper, and very necessary inquiry—Whether the interests of any other classes are likely to be prejudiced by the measures adopted to secure such advantages to those who are to reap the benefit of them?" (p. 3). Thus the writer evidently considers that the advantage of Free Trade consists in its enabling manufacturers and merchants to derive a profit from the use of their capital, and does not see that it really consists in enabling consumers to obtain the commodities which they require on the cheapest possible terms. He regards Protection as beneficial to the farmers, and contends that the interests of this class have as good a right to consideration as those of any other, but he does not see that even if this one class were benefited, the benefit would be obtained at the expense of the whole community, all the members of which must suffer as consumers of food when it is made artificially dear. Farmers themselves suffer in their turn to the full extent of their consumption, and the benefit which they derive from Protection is purely illusory. They cannot obtain a higher rate of profit, for the exclusion of foreign competitors does not prevent competition of natives from reducing profit to the ordinary level, nor does it prevent favourable seasons from producing low prices. When a bad harvest occurred while the Corn Laws were in force, they had the effect of raising the price of corn higher than it would otherwise have been, for a certain limit must be reached before any corn could be brought in to supply the deficiency. But though some farmers might benefit in such a case, others suffered losses; for the sudden importation of a quantity of corn when the required price had been attained was frequently followed by a rapid fall in the price, and the natural uncertainty of the corn trade was artificially aggravated. In the discussions on this subject, the Protectionists, of course, took for granted that the system which they advocated would

obtain the desired effect, and dilated on the great importance of the agricultural interest and the necessity of protecting it. The pamphlet which has just been quoted, concludes by asking—"Ought the farmers to have remunerating prices for their produce? Ought such prices to be secured to the farmers, if, without them, they can neither live themselves nor enable their labourers to live, nor support as they have been accustomed to support those various trades by which the country towns are mostly upheld, whose mainstay is the agricultural and landed interest?" Yet it needs little consideration to see that the price of agricultural produce must, as a rule, be high enough to remunerate those who are engaged in raising it, and that Protection cannot any more than Free Trade secure the farmers against fluctuations of prices.

When the Corn Laws were repealed, the farmers did not cease to obtain remunerative prices for their produce, though they did to some extent abandon corn-growing in favour of pasture. This change was carried out to so large an extent in Ireland as to produce most serious consequences, and Free Trade may be justly charged with the great depopulation of that island which has taken place during the last thirty years.* The Corn Laws placed so great an impediment in the way of the importation of foreign corn that they held out a great inducement to grow it in every part of the United Kingdom; and Ireland, which is better fitted for a pastoral country, was by their operation converted into an agricultural one. Agriculture requires that a much larger number of labourers should reside upon the land than is necessary in pastoral industry, and thus the effect of the Corn Laws was to cause that remarkable increase in the population of Ireland which continued as long as they were in force. When they were repealed, agriculture in its turn gave way to pasture, and the population of Ireland rapidly diminished. The potato blight and its consequent famine were the occasion of the commencement of the depopulation, but such a temporary disaster cannot have been the cause of what continued long after the occasion had passed away. If, then, depopulation is to be considered an evil, Free Trade has certainly inflicted an evil on Ireland; but it must be remembered that but for Protection the population of the country would never have increased to such a height as it did, and that if Free Trade had always been in operation no diminution would have taken place. The increase in the numbers of the people was no great benefit to them, for, as is well known, the greater part of them were in a state of chronic and abject poverty. The diminution of the population of Ireland has been accompanied by a larger increase in that

* See "Fragments on Ireland" in Cairnes' Political Essays. 1873.

of England and Scotland, so that the effect of Free Trade has been to attract people to the districts where they could live in greatest comfort. There has been an actual migration of labourers from Ireland to England, but even where this has not taken place the same effect has been produced indirectly by the growth of manufacturing towns in one country and their decline in the other. Free Trade has not diminished the total population of the United Kingdom, but it has enabled the people to satisfy their wants on more favourable terms than before. By excluding foreign corn, the Government exposed the country to a serious danger of famine whenever the harvest proved deficient, for foreign corn-growers could not depend on obtaining access to the English market, and could not therefore venture to produce a regular supply for English wants. It is well known that the sufferings occasioned by the Irish famine opened the eyes of Sir Robert Peel to the danger which threatened a country obliged to draw its supplies of food from a limited area. Now that the Corn Laws have been repealed, corn is regularly grown in all parts of the world to supply the English market, and all danger of a famine has been averted, for it is physically impossible that bad harvests should occur in all parts of the world at the same time. The adoption of the policy of Free Trade was followed, though not immediately, by a great increase in the exports and imports of Great Britain. To some extent this was merely a transfer to foreign trade of business which would otherwise be included in the home trade, and would therefore not appear in statistical tables. While the country produced its own food, the farmers who raised it consumed the manufactured articles which were given in exchange for it; but when it became a regular practice to import food, the manufactured goods which were given in exchange were exported, and the trade of the country showed an increase on both sides of the account. But even allowing for this diversion, the effect of Free Trade must still have been to give a great stimulus to commerce in every direction. The importation of large quantities of foreign corn enabled foreigners to buy large quantities of English manufactured goods, and the extension thus given to the market enabled the manufacturers to produce on a larger scale, to carry out a more minute division of labour, and to supply their products more cheaply both to natives and to foreigners. The repeal of the Corn Laws was only one of a series of measures the object of which was to enable consumers to buy whatever they wanted in the cheapest market, and the removal of the numerous restrictions which were formerly in force benefited manufacturers by enabling them to procure their raw materials at a smaller cost. Agriculture has benefited in common with other trades by the growth of manufactures, which has rendered

possible the invention and construction of machines for ploughing, reaping, and, indeed, for performing almost every farming operation. Although farming can never be rendered independent of the seasons, the use of steam-engines is a great step in this direction, for it enables an operation to be performed with wonderful rapidity, and full advantage to be taken of a short spell of fine weather. Yet the farmers were formerly induced to believe that their interests were opposed to those of the manufacturers.

The apprehension that the farmers, without protection, would not be able to obtain a remunerative price for their produce, has been shown to be groundless in the case of England by the result, which has been that they have gained as much by the rise in the price of meat as they have lost by the comparative cheapness of corn. As regards meat and dairy produce, native producers have so great an advantage over foreigners through their propinquity to the market and the consequently smaller cost of carriage, that they can never stand in need of any assistance from their government in the race of competition. If foreigners were able to sell more cheaply than natives, it would not be necessary for farming to be altogether abandoned in the country, but it would be quite sufficient that some of the inferior soils should be abandoned. The effect would be a diminution of rent, and this actually occurred in several districts after the repeal of the Corn Laws, although, as a rule, the conversion of arable land into pasture rendered such a course unnecessary. Even if no compensation could be given to the farmers by either of these methods there would still remain a reduction of the wages of farm labourers, and of the prices of farm produce, which would effect the required result. The scale of prices prevailing in any country is the result either of the fertility of its mines or of the efficiency of its labour as compared with that of countries which possess mines. If its agricultural labour is less productive than that of other countries which are able to supply it with food, a lower rate of money-wages will enable farm produce to be sold at prices not exceeding those charged for similar articles produced abroad at smaller cost. The labourers will suffer no injury by the fall of money-wages, for the prices of the principal articles of their consumption will fall in a corresponding ratio. As a matter of fact, agricultural wages have risen considerably in England since the repeal of the Corn Laws, for it so happened that the gold discoveries in California and Australia took place immediately after the adoption of that measure. The price of corn, though it has been higher than it was during the period of Protection, has not been subject to such violent fluctuations, and the average rise has certainly not been greater than that which has taken place in wages. The farmers and the

country towns dependent on them have continued to thrive, while a great development has been given to manufacturing industry.

Another mode of encouraging a particular industry which has been sometimes adopted, consists in offering a bounty on the exportation of a certain commodity. In the first half of the 18th century, the English Government frequently gave a bounty on the exportation of corn when the price in the home market was so low as to show that there was no fear of a deficiency. In some instances this must have proved a great boon to the farmers by enabling them to get rid of a large stock which an abundant harvest had caused them to accumulate ; but whatever they received in this way was taken from the rest of the community, who derived no benefit whatever from the transaction. When the proceeding was repeated every year, its obvious tendency was to produce that very superabundance which it was designed to relieve, for it removed the natural check on accumulation which would have been imposed by the difficulty of disposing of surplus stock. Had there been no bounty, the farmers would have found it expedient to grow less corn during the remarkable succession of good harvests which occurred during this period ; or, if the same quantity had been grown, there would have been a greater increase of population than that which actually occurred. Food possesses to a greater degree than any other commodity the power of creating its own demand, and it is therefore the one of all others which stands least in need of the assistance of government in providing a market. So far as the bounty had any effect, it caused more capital to be employed in growing corn than would otherwise have been, and hindered the development of other branches of industry. Without the bounty the people would still have been able to export their produce and to import other articles in exchange, and the operation would have been equally profitable. The bounty did not in the long run secure higher profits to the farmers, but only induced them to obtain a profit by a particular mode of culture, while their mutual competition must have reduced prices to such a point that they obtained no more than the ordinary rate of profit. To the rest of the community the system brought increased taxation and diminished comfort. If capital had been left to find employment for itself it would have flowed into some other trade, probably into one in which goods would have been produced for exportation, and the imported articles would have been paid for at their true value without any artificial deduction from the incomes of the taxpayers. The assumption which is made by Protectionists in this as in other cases, is, that whatever encouragement is given to one branch of industry is an addition to the total industry of the country, and that what labourers need is some direction from the Government as to the kind of work

which they ought to perform. That this assumption is erroneous will appear from a consideration of the fact that what maintains labourers is not the work in which they are actually engaged, but the capital which has been previously accumulated. Human beings have numerous wants to satisfy, and if they are provided with capital to maintain themselves while working at other occupations than that of raising food, their own wants will soon teach them the direction which their industry should take. Instruction from the Government is not required in order to point out objects which they ought to desire, for their own tastes and feelings will point out quite as many, and, indeed, far more than they can produce. As a protective duty or a bounty does not add anything to the capital of a country, it can only cause it to be transferred from one employment to another ; but this transfer must be from an employment which satisfies some existing want to one which does not, and, consequently, simply injures consumers without conferring any benefit on producers as a body.

Another mode of directing industry into a particular channel which has been adopted by many governments, though not entirely for industrial purposes, consists in placing restrictions on foreign shipping admitted to its ports. The most celebrated of the Acts which have from time to time been passed in England in reference to this subject is one which was passed in Cromwell's time, and known as the Navigation Act. Its principal object was to prevent the Dutch from importing into England the produce of any other country than Holland itself, but it was not so much designed to procure a profitable trade for the English as to relieve the country from the danger to which it would be exposed in case of war if it were not provided with a large number of ships and seamen. Adam Smith himself has praised it as a wise measure, because well calculated to secure the independence of the country. In a passage which has been frequently quoted, he points out that the law was a great impediment to foreign trade, that it compelled the English to buy dear and sell cheap, and in many cases prevented them from buying at all ; but he praises it because it dealt a blow at the naval power of Holland, and concludes by saying, "As defence, however, is of much more importance than opulence, the Act of Navigation is perhaps the wisest of all the commercial regulations of England." (Book iv., chap. 11). M'Culloch, in an able note appended to his edition of the "Wealth of Nations," has carefully examined the facts and arguments which have induced Smith and others to believe that the Navigation Laws had succeeded in obtaining the object which they were designed to promote, and has shown that there is scarcely any evidence to support the belief. The great victories of Blake over the Dutch were obtained before the Act was passed, while

the most disastrous naval war in which England was ever engaged was with the Dutch, and occurred in the reign of Charles II. after the passing of the Act. This latter war was, indeed, in great measure the consequence of the irritation felt by the Dutch at the adoption by the English Government of a policy so hostile to their interests. But as time goes on, and the memory of remote events becomes more and more indistinct, the wars between England and Holland are classed together as if quarrels were frequent, and it is forgotten that they would have been much rarer if a more liberal policy had been pursued in commercial matters. It is well known that the naval power of Holland continued to be formidable long after Cromwell's time, and its subsequent decline is due rather to the greater progress made by other States than to an absolute diminution in its own strength. Nor does it appear that the Navigation Act made any considerable addition to the mercantile marine of England, for, though it secured to English shipowners a monopoly of a great part of the commerce between England and other countries, it could not secure to them a monopoly of the trade between foreign countries themselves. It deprived the Dutch of a part of the carrying trade, but caused a diversion of English shipping from its accustomed channels, and what was gained in one direction was lost in another. As the industry of a country is limited by its capital, an artificial extension of one trade must be followed by a contraction in some other, and in this case it is easy to see how the result was brought about. English ships were required to do the work which had been formerly done by Dutch ships, and the consequence was that many were withdrawn from the Baltic trade, of which the English had formerly enjoyed a large share. The freights charged by Dutch ships were lower than the English rates or the Act would never have been passed, and the difference was probably increased by the operation of the Act, one clause of which required that three-fourths of the crew should be Englishmen. This acted as a discouragement to foreigners, who might otherwise have employed English ships, but were compelled to use those of Holland or some other nation. The great diminution in the naval power of Holland which has taken place since Cromwell's time has destroyed the force of the political arguments which induced English statesmen to pass the Navigation Laws, and even those who consider that they were useful at the time when they were passed have ceased to regard them as any longer necessary. They were substantially repealed soon after the Corn Laws, to which they were, in principle, so nearly allied; and their repeal has not been followed by any diminution of English shipping. That the mere throwing open of the trade is not necessarily followed by the intrusion of foreigners is shown by the small effect produced by the

opening of the coasting trade, which in most countries is reserved to natives, but which in England was thrown open to foreigners in 1854. Although very little advantage has been taken of this measure by foreign shipowners, the knowledge that foreign competition was possible must have acted beneficially on natives engaged in the trade by compelling them to reduce their freights and to avail themselves of new inventions. The chief evil of a protective system lies in the encouragement which it gives to the natural indolence of all men, whether farmers, manufacturers, or shipowners, by limiting the field of the competition to which they are exposed. When the Commercial Treaty between England and France came into operation, it did so much to bring the manufacturers of both countries into competition that it was impossible for any to maintain their ground unless they were prepared to do their utmost to bring their works to perfection. M. Chevalier remarked that the treaty sounded like an alarm bell in the ears of French manufacturers, and that they at once set to work to introduce machinery of the most improved type and every new process which promised to facilitate production. We can hardly need a better proof of the backward condition of French manufactures before that time, or of the enervating effects of Protection. Similar effects must be produced in the shipping trade wherever it is protected by Navigation Laws, and wherever one trade is protected, similar protection is sure to be demanded, and obtained, for others. Whatever diminishes imports diminishes exports also, and retards the growth of those branches of industry which might contribute to supplying the foreign market. By circuitous channels, the effects of Navigation Laws may be diffused over several trades, and, among them, the ship-building trade itself; and whatever hinders ship-building does far more to injure the commerce of a nation than can be done by Navigation Laws to promote it. In those countries where a duty is levied on English iron for the purpose of protecting the native iron trade, a great obstacle is put in the way of building ships, in which iron is fast becoming the principal material; and the natural advantages which England enjoys in this respect are enhanced by the very measures which are directed against English trade. By removing all restrictions on the intercourse of its subjects with foreign countries, the English Government has done all that it can do to encourage shipping by enabling an extensive commerce to grow up which requires an immense mercantile marine to carry it on.

Although the system of Protection has now been completely abandoned in England, there is a large community in which the English language is spoken and English books are universally read which has nevertheless been so little affected by the progress of English thought, that Protection,

far from having been abandoned there, is still dominant, and has of late years materially gained in strength and popularity. The community is one which might have been expected to look with peculiar favour on the doctrine of Free Trade, for its citizens pride themselves on the amount of individual liberty which they enjoy, and on their independence of the rule of any class. But all these influences united have not proved sufficient to induce the people of the United States to adopt the policy which has been so strongly recommended by Political Economists, both in England and on the Continent, and a school of writers has sprung up in America to defend the maintenance of the Protective system. The unanimous opinion of English Economists, though it has not been able to affect the policy of the United States Government, has not been altogether without effect, for American writers rather strive to prove that theirs is an exceptional case than boldly to maintain, like the writers who preceded Adam Smith, that Protection is essentially beneficial to industry. They tell us that England has been brought by the nursing of Protection to such a pitch of industrial perfection that it is now able to defy the competition of the whole world, but that the United States, being less advanced industrially, cannot afford to dispense with the support which that system affords. In Adam Smith's time, foreigners were apt to attribute the commercial greatness of England to the wisdom of the protective system which was there in force, and the belief may have had some foundation, though not such as would afford much encouragement to those who held it. Adam Smith considered that the protective system pursued in England was better than those of foreign countries, but it was only better because it was less protective. Observers who looked only at a few facts saw that England had a protective system and an extensive commerce, and they at once concluded that the two things stood to each other in the relation of cause and effect. In the same way many writers now adduce the great extension of English commerce which has taken place since the adoption of the policy of Free Trade as a conclusive proof of the truth of the economic doctrines on which that policy was based. In both cases the reasoning is equally unsound. Political Economy does not teach that a country cannot attain to commercial greatness while subject to a protective system, nor does it teach that a great extension of commerce will follow the abandonment of such a system. Statistics may prove that a country possesses an extensive commerce, or that it has greatly increased its commerce; but by themselves they are quite inadequate to prove or disprove any assertions which may be made regarding the effects of a particular policy. In order to show that Protection promotes commerce, it is not enough to show that the two things flourish together, but some proof must be

adduced that the one has a tendency to promote the other. The Protectionists have indeed attempted to do this, but they have only shown that Protection caused a certain trade to be carried on in a locality where it would not otherwise exist, and they have never shown that it would make any addition to the capital or the total industry of a country, much less of the world. Adam Smith and others have shown how it injures industry by causing production to be carried on under less favourable conditions, and, consequently, at a greater cost; and their argument would be equally convincing even if statistics did not show a great increase of commerce where their advice had been followed. The charge of insidious selfishness which is brought against England on account of its having got all the good it could out of Protection, and then called on other countries to abandon what was no longer necessary to itself, but was useful to them, is one of the most ridiculous which was ever brought against any nation. The only reason why Protection has been abandoned by English statesmen, is, that they have been convinced that it is essentially useless and injurious; and when they call on other countries to follow their example, they do so because they are convinced that its maintenance is equally injurious to other countries. Foreign Protectionists attribute to Englishmen a desire to monopolise all the trade of the world, not seeing that there must be two parties to every trade, and that every extension of the commerce of England must be accompanied by an increase of that of the countries which trade with it. When President Grant, in a Message to Congress, recommended the annexation of San Domingo, he dilated on its capacity for producing many articles which are imported into the United States from foreign countries, and urged that if his advice were followed, importation would cease. Yet, in the same Message, he dilated on the advantage which the United States would derive from the exportation of their produce, and seemed to suppose that the process would continue even though importation were annihilated. How he supposed that foreigners were to pay for American export, if they were not allowed to export anything in return he did not explain, but he probably wished them to do so by remitting the precious metals. If this were to be done, the exports of the United States would soon be reduced to a very low figure by the inability of the rest of the world to furnish them with a large and constant supply of gold and silver. Among the American writers who defend Protection none are better known than Mr. H. C. Carey, whose "Principles of Social Science," published in 1856, contains an elaborate defence of the system in all its ramifications. The work being somewhat prolix, an abridgment

has been prepared* for the convenience of the American public, from which the following observations are extracted :—"A country embraces all the varieties of soil and climate requisite for a very varied agriculture, from the barley of the North to the sugar of the South; and yet its inhabitants are compelled to go abroad for various articles, paying many times the original cost, and losing annually more than would, if properly applied, suffice for naturalising them at home. . . . Iron ore and fuel abound, but there being no furnaces both remain useless, and the farmer can scarcely obtain a plough. Wool abounds, but as there is no woollen mill, the farmer's daughter is idle while he himself cannot obtain a coat. . . . . In this state of things, society says to the farmers and labourers that the establishment of mills and furnaces would double the value of both land and labour, and that to enable them to combine their efforts for the erection of such establishments it will require of the foreign producers of cloth and iron a certain portion of the value of all they may import—applying the proceeds to the making of new and better roads, or to paying the expenses of government; thus improving the modes of communication among themselves while relieving them at once and for ever from the oppressive tax of transportation to the distant market." (Chapter xliv., sec. 2, pp. 509-510).

Thus, Mr. Carey considers it a greater hardship for consumers to have to pay for the transportation of the goods from a great distance than to pay an equal amount for similar goods produced within the limits of the political community to which they belong. What difference it can make to them whether the high price which they have to pay is owing to the high cost of production or to that of transportation, he does not explain, and would probably find it difficult to do so. If for transportation we substitute production, the argument would be equally cogent. Mr. Carey might say that though ploughs and coats could be produced at home with less labour than would be required to bring them from abroad, it would be better for society to step in to compel the native producers to contribute something towards reducing the cost of sea transport, and thus at the same time reduce the expense of travelling and relieve the consumers at once and for ever from the oppressive tax of production. Human labour, as has been well explained by Mill, consists of nothing else than moving things from place to place, and, wherever production is carried on, transportation is carried on also. If an American farmer buys iron raised from a mine in his own State, what he pays for is the labour of transporting the ore from the bottom

* By Kate McKean, Philadelphia, 1872.

of the mine to the surface, and thence to the furnace, and of transporting the iron to the different workshops where it is made up into the shape in which he requires it, and, lastly, of conveying the finished article to his own house. The most complete Protection cannot, any more than the most absolute Free Trade, emancipate human beings from the necessity to which they are subjected by the laws of matter and force; and, so long as industry continues, consumers will have to submit to the oppressive tax of transportation. So far as this tax can be lightened, it is done by Free Trade, which enables goods to be brought to their destination with the least possible expenditure of labour. Mr. Carey looks only at the distance, and thinks that there must be more labour of transportation the farther the goods are brought. This is clearly an error where land and water carriage are compared, and even where the actual journey which is made by the goods in their finished state is longer, the labour of transporting the different elements to the place where they are combined is often greater, and the total labour of transportation is greater also. A protective duty would not be imposed unless foreign producers were able to undersell the natives, and the fact that they are able to do this shows that the consumers are able to obtain what they want by a smaller expenditure of money and of labour. The alternative is not between production and transportation, but between a smaller quantity of one kind of transportation and a larger quantity of another kind. Another assumption made in the above passage is, that labourers would not find employment unless guarded by Protection; but the very fact that a protective duty is proposed shows that foreign goods are imported, and, if imported, they must be paid for by corresponding exports. The farmer's daughter, we are told, is idle, but her chances of obtaining employment will not be increased by the imposition of a protective duty. If the duty succeeds in excluding foreign goods, foreign purchases will also cease, and those who have hitherto laboured to produce goods for exportation will compete for employment in the production of the articles which were formerly imported. If the farmer's daughter was not able to get employment while the old state of things continued, she would be no better able to do so under the new, for her competitors will be as numerous as before, though the kind of work will be different. We are told that the farmer can hardly procure himself a coat, but he will be no better able to do so after the change than before. If he could not formerly import a coat, or the cloth of which a coat might be made, a protective duty will not cause him to buy it in a new quarter, but it will reduce his power of purchasing coats, or, indeed, any other articles. By the supposition it will force him to pay dearer for home-made articles

than he had formerly done for foreign ones ; and whatever makes him pay dearer for a given quantity of commodities, must, *pro tanto*, diminish his purchasing power. But the most curious oversight which is exhibited in this passage consists in the assumption that a protective duty can, at the same time, fulfil its purpose and yet bring in a revenue. Foreign producers, we are told, are compelled to contribute a portion of the price of their goods, which is applied to the construction of roads, or to the maintenance of the Government ; and thus taxation is lessened, while native industry is encouraged, the iron mines are worked, the wool is manufactured, etc. But it is obvious that unless protective duty is high enough to exclude foreign products it cannot secure a monopoly of the market to native producers, nor afford any additional inducement to open up native mines or establish native factories. If, on the other hand, the duty is sufficient for the purpose, it cannot yield a revenue, for the goods on which it is imposed will not be brought within reach of the Custom Houses. In the former case the duty ceases to be protective, and, indeed, belongs to that class of taxes which are viewed with favour by many writers who are strong advocates of Free Trade. The tea duty, which has long been levied in England, is a tax on a foreign product which brings in a considerable revenue, but it is not protective, for, whether it existed or not, English farmers would not strive to compete with those of Asia in tea growing. In the latter case, when a duty is really protective, its defects cannot be palliated by pointing to a relief which it furnishes to the taxpayers. It is, indeed, possible for a duty to be so adjusted that it merely diminishes, instead of preventing, the importation of foreign commodities ; but when this is the case, it fails in its object just to the extent to which the articles are imported, and, instead of being entitled to praise, both as a fiscal and as a protective expedient, it is a compromise which is equally objectionable to both parties. Mr. Carey frequently complains that Free Trade impoverishes the United States by encouraging the export of corn, which is, in effect, the gradual removal of the soil itself. There is a certain foundation for this objection, for, as the removal of each crop is the removal of so much of the soil as has already been absorbed into the substance of vegetables, the process, if continually repeated, must completely impoverish the soil. That continued exportation of produce does produce this effect has been shown on a lamentably large scale in the Southern States of the Union during the maintenance of slavery, and other countries have exhibited a similar spectacle, though not on so large a scale. South Australia is one instance, and the county of Durham, at the time of Mr. Caird's visit, was another, and in both cases the effect is clearly shown by a diminution in the average yield. But, as Mill has clearly shown,

there is no connection between Free Trade and such a wasteful system of tillage. All that is necessary is, that the farmers should import manure to replace those elements of the soil which have been removed in the shape of corn, and Free Trade, far from preventing them from doing so, places every facility in their way. On the other hand, Protection does not prevent farmers, if so inclined, from thus impoverishing their lands; and the county of Durham was so impoverished during the period of Protection. As Mill points out, the argument, if it were good against Free Trade with foreign countries, would be equally good against Free Trade within the limits of the same country, especially in one so extensive as the United States. The corn which is brought from the Western States to the great cities on the Atlantic Coast is not brought back in the form of manure any more than that which is exported to England or France, and if Custom House barriers are necessary in the one case, they are equally necessary in the other. It has been shown by experiment, as, indeed, it might be proved *a priori*, that when a proper quantity of manure is supplied, the same kind of crop may be raised year after year from the same soil without undergoing any diminution in its quantity; and this being so, the question becomes a purely agricultural one which cannot be affected by the discussions of Economists. If the price at which American corn is sold is not sufficient to enable the farmers to supply themselves with manure, they have the remedy in their own hands, for they can raise the price until it is high enough for the purpose. If they are not sagacious enough to do so, then it can matter little to what market they send their grain, for whether it be American or foreign, near or remote, the soil will be equally impoverished, and they will have no one but themselves to blame. The farmers of Durham have already found that the consumption of the United Kingdom was large enough to impoverish their farms when they would not consent to take the trouble to renovate the soil.

Mr. Carey considers Protection to be necessary for securing the stability of the banking system of the United States. According to him, the monetary crises which have from time to time occurred in that country have been due to the scarcity of gold, and this in its turn has been caused by the absence of a fiscal system which would cause gold to be constantly imported in large quantities. To secure a regular influx of gold and silver was the object of all systems of Protection adopted in mediæval Europe, because in those times the belief was general that wealth consisted in these metals alone. Such was the anxiety of the English Government to secure this object, that at one time it appointed agents to see that in every bargain which an English merchant concluded abroad he exchanged English goods for foreign gold or silver. The

Government allowed foreigners to import their goods into England, but took great pains to prevent them from carrying away any but the smallest portion of the precious metals which they received in exchange. Mr. Carey does not suppose that wealth consists entirely of these metals, but he fears that a country may not be able to obtain a sufficient quantity unless the Government makes special provision for the purpose, and he seems to have as much confidence in the power of the Government to obtain this object as was shown by mediæval statesmen. That it is necessary for a country which uses gold for its currency to keep up its stock is obvious enough, but Mr. Carey does not tell us why the assistance of the Government is necessary to enable the people to obtain what they require. England possesses no gold mines worth mentioning, and has, for the last quarter of a century, pursued a policy of Free Trade, and yet it has received a large portion of what has been produced in California, and nearly the whole of what has been raised in Australia, and no Englishman who has anything to give in exchange has any difficulty in procuring gold coin. There have been occasions when English banks have been denuded of their stock of gold; but even at these times the scarcity has only been felt by the limited class of merchants who happen to require large quantities, and the general public have had no difficulty in obtaining as many coins as they desired. Mr. Carey contends that Protection secures to a country a constant and sufficient supply of gold, and so saves it from monetary crises. Speaking of the United States, he says, "Protection ceased in 1818, bequeathing to Free Trade a commerce that gave an excess import of specie, a people among whom there existed great prosperity, a large public revenue, and a rapidly diminishing public debt."

"Free Trade ceased in 1824, bequeathing to Protection a commerce that gave an excess export of specie, an impoverished people, a declining public revenue, and an increasing public debt." (Chap. xxix. sec. 8, p. 348). And he continues to enumerate several changes, all of which told to the disadvantage of Free Trade. I do not know what are the particular changes in the tariff which Mr. Carey describes as transitions from Protection to Free Trade, or *vice versa;* but since the commencement of the civil war, the United States have adopted a tariff which is as protective as he could desire, and yet it has not saved them from the scarcity of gold which characterised the crisis of 1873, as it has characterised all commercial crises in America, England, and elsewhere. A fiscal system based on the principles of Protection may seriously obstruct the importation of foreign commodities, but cannot prevent fluctuations in the amount of exports and imports, and it is the fluctuations which drain a country of its gold. However frequently a tariff may be modified,

it must be considered as permanent when compared with the fluctuations of commerce, and a permanent rule cannot prevent consumers from sometimes requiring an unusual quantity of a particular article. When this happens, it must frequently be found that the country has no other commodities except gold which foreigners will consent to accept in payment for what is imported, and no tariff can prevent gold from being exported in such a case. Several crises occurred in England under the *regime* of Protection, and the most noted of these, that of 1825, was marked by quite as great a diminution in the reserve of gold held by the Bank of England as has ever occurred since. So far as Protection has anything to do with commercial crises, it rather tends to multiply and aggravate them, for by obstructing the trade of a country with foreign countries it impedes the growth of those business relations which would teach foreigners to accept native produce rather than gold on such occasions. The discovery of gold in California ought to have relieved the United States from all danger of crises if these could be prevented by regular importation of gold, for the produce of that region is far in excess of what is needed to keep in repair the currency of the United States. But the high prices which the discovery has produced have encouraged importation from abroad, and the vicissitudes of commerce have produced a temporary dearth of gold on several occasions since that event, as they had done before.

Another American writer, Mr. H. Carey Baird, contends that American producers are entitled to protection because they have to submit to heavy taxation while foreigners are able to introduce similar goods without paying the same taxes, which he seems to regard as the same thing as being untaxed. He commences a pamphlet* by asking "What is British Free Trade? It is that extraordinary governmental policy which would grant privileges to foreigners which it withholds from its own people! It is that system of legislation which would permit those foreigners to send the goods, wares, and merchandise, the products of their labour, into your country untaxed, without contributing toward the support of your city, town, county, state, or National Government; while you pay for those purposes taxes upon real estate, sales, incomes, manufactures, corporations, transportation, furniture, watches, light, heat, books, newspapers, bonds, mortgage deeds, notes, checks, food, spirits, ale, medicine, law, &c., &c.; in a word, upon all you eat, drink, wear, are obliged or desire in any manner or form to use, have, or enjoy, excepting only the air you breathe. Can such a system be based upon any principle of right or justice, or can it be expedient in any country

* "The Rights of American Producers and the Wrongs of British Free Trade Revenue Reform." Philadelphia, 1870.

or among any people?" There would be nothing to object to in this argument if Mr. Baird simply contended that when a duty was imposed on an article produced in the United States a corresponding duty should be levied on it when imported from abroad. American producers have frequently suffered from the neglect of their Government to take such a measure, which is equally required by justice and expediency, but it is evident that Mr. Baird's argument is not confined to such cases. He argues that because American producers are heavily taxed, they should have a monoply of the market as against foreigners who do not contribute to American taxation, but he does not show any connection between the two things. The reason why foreigners do not contribute to American taxation is, that they derive no benefit from the maintenance of the American Government, and Mr. Baird gives us no reason for calling on them to contribute towards it. The fact that the Americans are able to buy foreign products at a cheaper rate than those produced at home does not show that they are less able to bear the burden of taxation, but, on the contrary, everything which diminishes their expenditure in one direction makes them better able to afford it when it takes the form of paying taxes. If American consumers were debarred from the purchase of foreign goods, the burdens imposed on American producers would not be thereby rendered less onerous. They would not be required to produce more, but would simply have to supply the home market instead of producing goods for exportation. The amount of taxation would be just as great for the expenses incident to the maintenance of the military and civil services, and the payment of the interest of the public debt would be the same whatever system of raising the revenue were adopted, but if a protective system were established the people would to some extent be impoverished. Whatever excludes cheap goods on account of their cheapness must compel consumers to accept less in exchange for a given quantity of labour, and must, *pro tanto*, diminish the surplus which they can place at the disposal of the Government after their most pressing wants have been supplied. Mr. Baird discusses the merits of a tariff proposed by the partisans of Free Trade, the principle of which is, that duties shall with few exceptions be levied solely on articles which cannot be produced in the United States, and he makes the following observations :—"Now, the duties here contemplated being generally, and with but few exceptions, levied upon products which we do not produce and must have, we ourselves must of necessity pay them, there being substantially no American competitors to keep down or regulate prices, or to oblige the foreign producers themselves to pay the duties in order to compete with such American competitors. These duties, then, become an absolute and

positive tax upon Americans from which there is no escape except by their ceasing to consume the products. Again, the general reform principle, as here developed, being to levy no duty upon any product the like of which is produced in this country, a few heavily-excised articles almost alone excepted, foreigners are to be allowed free and untaxed access to our markets here to compete with American producers, the mere fact of any article being largely produced in this country being the title by which, by the code of the "reformer," the foreigner obtains the right to send such articles into this country untaxed. As all of the people of this country must ultimately live off, or from, the product of American production, so must all taxes, national, state, and local, ultimately fall upon American producers, and upon them alone, unless we can make foreigners who seek our markets, and enjoy the advantages and profits thereof, pay a portion of these taxes, precisely the thing which these British Free Trade revenue-reformers intend shall not be done." Thus, what he complains of is a system by which Americans would be made to pay for the Protection which their government affords to them, and to them alone, and would have to pay neither more nor less than is absolutely necessary. It is difficult to see wherein he supposes the grievance to consist. Americans alone have to pay for what they alone use, and he fails to point out any sort of reason why anyone else should be made to pay for it. He argues that, because the whole of the commodities which are consumed by the American Government must be either produced in America or paid for by American produce, therefore the whole burden of taxation falls on American producers, but this does not necessarily follow. All that part of American taxation which falls upon unproductive consumers is levied without imposing any heavier burden on producers than they would have to bear if such taxation was abandoned. He regards it as a hardship that heavily-taxed American producers should have to face a competition of untaxed foreigners, but he seems to forget that foreign producers have their taxes to pay, though the American Government derives no benefit from them, and he quite omits to show that such taxation prevents Americans from selling their produce at as cheap a rate as foreigners. He regards it as singular that the Free Traders should make the fact that an article can be produced at home a reason for admitting it from abroad untaxed, but he quite forgets that the exception of "a few heavily-excised articles" cuts away the ground from under his argument. The Free Traders do not object on principle to the taxation of articles which can be produced at home. They simply consider that the revenue can be more conveniently raised when duties are levied on a very few articles, some of which can be, while others cannot be, produced at home. In the interest

of producers themselves Free Traders desire to restrict within the narrowest limits the interference with production which a system of excise necessarily brings with it. In the interest of consumers they object to the imposition of any duty which raises the cost of an article without benefiting the revenue. The object of the revenue reformers is to devise a scheme for providing for the expenses of government which shall press most equitably on all those who benefit by its maintenance. It would be just as reasonable for Mr. Baird to complain that American producers have to bear the expense of feeding and clothing themselves as to complain that foreigners are not compelled to provide them with a government.

In another pamphlet, Mr. Baird publishes part of a correspondence between himself and Mr. Perry, Professor of Political Economy at the Yale College, who, it appears, had endeavoured to convince him of the folly of Protection, and to whom he makes the following characteristic reply :—"'They'" (the Protectionists) you go on to say, "'ignore the fact that all trade is voluntary exchange of services between two parties who know better than anyone else can tell them what their interests are, and that such trade ceases of necessity the moment it becomes unprofitable.'" "Granted, for the sake of the argument. May not the same be said of the voluntary exchange of services between two highwaymen, the one who holds your horse, and the other who puts his revolver to your head and demands your money or your life? Do not these highwaymen 'know better than anyone else can tell them what their interests are?' Is this exchange of services to be allowed to go on until it ceases because the entire community having been either robbed or frightened from the road 'it becomes unprofitable.'"* The case which Mr. Baird puts is in no way parallel to that which it concerns him to discuss. In the case of the highwaymen there is no occasion for anyone to interfere in the interest of the highwaymen themselves. The reason why society interferes in the matter, is, that it wishes to protect those whose liberty the highwaymen wish to infringe. It interferes, not to curtail liberty, but to preserve it. In the case of a protective duty, society interferes not to preserve the liberty of any individual, but to prevent individuals from procuring what will satisfy their own wants without injuring other individuals. Mr. Baird, indeed, seems to consider that American producers are injured whenever an American buys foreign goods instead of those produced by his own countrymen; but this assumes that the producers have a right to choose what they will produce, and to compel their countrymen to buy from them whether they like it or not. This

* "Two Letters to Arthur Latham Perry," Philadelphia, 1871, p. 6.

is to assume that a certain class of men are entitled to dictate to the rest as to the manner in which they shall deal with their own property and supply their own wants ; an assumption of the same kind as that which is made by highwaymen, and against which society in their case protests so strongly. The conduct of society where Mr. Baird's scheme is carried out is so far from resembling its conduct when dealing with highwaymen, that it might be much more fairly compared to the conduct of the highwaymen themselves, since in both cases there is the same interference with persons who have done no wrong, and in both cases it is undertaken for the benefit of a class which is very small in comparison with the numbers of those who are injured.

Another argument which is put forward by American Protectionists is, that wages being higher in the United States it is impossible for the producers of that country to compete against the pauper-labour of Europe. This argument proceeds on the assumption which is so frequently made by commercial men, and sometimes even by Political Economists, that the amount of money spent in wages indicates the cost of production. If this were so, the cost of production would certainly be high in the United States, for money-wages are about twice as high there as they are in Europe ; but the theory of wages, which has been explained in a previous chapter, is directly opposed to such an assumption. As Adam Smith said long ago, the cost of an article to a person who wants it is the trouble and difficulty of procuring it, whence it follows that the greater the quantity of a commodity which can be attained by a given quantity of labour, the smaller must be the cost of producing it. The fact that wages measured in gold are higher in the United States than in Europe proves that the cost of producing gold is low, for otherwise a smaller quantity of labour would not be rewarded with a larger quantity of gold. When Americans say that the high cost of labour prevents them from competing with their European rivals, they forget that wages are just as high in gold-mining as in other branches of industry, and that they are able to produce gold for exportation. So it is with agriculture where wages are high, and yet an immense quantity of produce is annually exported. If the wages of American farm-labourers were as high as at present, but their labour was not more efficient than that of their European rivals, it would no doubt be impossible for American farmers to stand against the disadvantage of the greater cost of carriage which must be submitted to before their produce can be brought to an European market. But the very fact that such an exportation does take place shows that they can compete with what they are pleased to call the pauper-labour of Europe and that there must be something wrong in this theory. That the theory is not

altogether devoid of foundation must in fairness be admitted, and is brought home to many American manufacturers by their daily experience. Each of them finds that, though his machinery is as good, and his workmen as skilful as those employed in European factories, he cannot afford to sell his products at so low a price as his rivals, and, having exhausted all other means of accounting for his failure, he finds a sufficient explanation in the enormous difference between the rates of wages paid in his own and his rivals' establishments. But though this explanation is correct as far as it goes, it is not sufficient to support the theory which American Protectionists build upon it, for there are many trades, of which gold-mining and agriculture have already been cited as examples, in which American producers can, and do, compete successfully with Europeans. What, then, is the meaning of this theory of the inability of Americans to do so? The answer is furnished by Mr. Cairnes, who observes, "What it means, and what it only can mean, is, that they are unable to do so consistently with obtaining that rate of remuneration on their industry which is current in the United States. If only American labourers and capitalists would be content with the wages and profits current in Great Britain, there is nothing that I know of to prevent them from holding their own in any markets to which Manchester and Sheffield send their wares. And this brings us to the heart of the question. Over a large portion of the great field of industry, the people of the United States enjoy, as compared with those of Europe, advantages of a very exceptional kind; over the rest, the advantage is less decided, or they stand on a par with Europeans, or possibly they are, in some instances, at a disadvantage.*" While the Americans confine themselves to those branches of industry in which they have a decided advantage over Europeans they are able to produce on a large scale, both for themselves and for foreigners. What they complain of is their inability to compete successfully in those branches in which they are at a disadvantage, or, at least, have a less decided advantage. They do not complain that they are unable to obtain any commodities which they require, for the demand for Protection implies that foreigners are ready to supply their wants. Their complaint is that they are not able to obtain high remuneration when they will not consent to produce those articles which natives and foreigners are most willing to purchase. Similar complaints are heard in other countries in which money-wages are much lower than in the United States. Russian and Austrian producers dread nothing so much as English competition, although they have to pay their workmen much

* "Leading Principles, &c.," p. 464.

less than their English competitors. It is not the high rates of wages which prevent Americans from competing with Europeans, but their refusal to select the trades in which the high wages can be successfully earned. As Mr. Cairnes says, in continuation of the passage already quoted, "The people of the Union decline to confine themselves within these liberal bounds. They would cover the whole domain of industrial activity, and think it hard that they should not reap the same rich harvest from every part of the field. They must descend into the arena with Sheffield and Manchester, and yet secure the rewards of Chicago and St. Louis. They must employ European conditions of production and obtain American results. What is this but to quarrel with the laws of nature." That they cannot under these circumstances compete with advantage is clear enough, but Protection would not enable them to do so. The laws of nature cannot be repealed by the fiscal regulations of any government, and if the situation of the United States is unfavourable to the growth of a particular industry, the exclusion of foreign products will not make it thrive. A protective tariff may indeed compel the Americans to produce for themselves the articles which they would otherwise have imported from abroad, and the producers will, in such a case, receive the same rates of profit and money-wages as the rest of their countrymen. But the advantage will be merely nominal, for, in the first place, American producers would have earned quite as high a nominal remuneration if they had produced goods for exportation; and, in the second place, although money-wages will be the same, real wages would have fallen. The fact that foreign commodities were imported shows that they were sold at a cheaper rate than those produced in the country; and if a monopoly of the market is granted to the home producers, the consumers would have to pay dearer for what they purchase, and a given quantity of labour will be rewarded with a smaller amount of comfort than it would otherwise have been. I use the word monopoly in spite of the objection made by Mr. Baird, who, in a letter to Mr. Perry, says, "I am tempted to remark upon a passage in yours of the 19th ult., where you ask, 'Why then should exchanges be prohibited professedly in the interests of taxpayers, but really in the interests of monopolists'. This cry of 'monopoly,' is, as I am well aware, a most important part of the stock-in-trade of the so-called 'Free Traders,' but is there, however, anything but an attempted deception in it. Suppose any article, iron for instance, be prohibited, not merely protected, to whom does it grant any monopoly? Is it not simply to each and every one of the 40,000,000 of inhabitants of the country who has the desire, the brains, and the capital to engage in its manufacture? Do you call this 'monopoly?' If you do, you must rely upon and consult

some dictionary which I have never seen, and I should like to know the name of the author." (p. 11). Perhaps, in strictest accuracy, the word monopoly signifies a privilege of selling enjoyed by one person alone to the exclusion of all those who can be restrained by the authority of the granter of the privilege. But the word has long been used in cases where the privilege is shared among a large number, and where very little difficulty is experienced in obtaining a share in its advantages. The Bank of England is said to enjoy a monopoly of note-issue in London, although its proprietors are numbered by thousands, and anyone who has money to invest can become a proprietor if he wishes to do so. The East India Company was in like manner said to enjoy a monopoly of the trade between England and the East Indies, although its proprietors were very numerous, and it was easy to obtain admission into their body. What is essential to the argument is, that the monopoly, whether enjoyed by one person or many, should have the effect of restricting production to those localities where it can only be carried on at a greater cost than would otherwise be necessary, and the privilege enjoyed by American producers is of this character. It is for their benefit that foreign goods are excluded, and American consumers have to pay dearer for what has been produced with more labour. The monopolies which were formerly granted to single individuals were open to objection on the same ground, but they prevented consumers from obtaining what they wanted on the cheapest terms; and as the same principle is involved in both cases, and the same word has been commonly applied to both, I see no reason for abandoning it.

That the protective tariff enforced in the United States has had the effect of diminishing real wages has been shown by Mr. D. A. Wells, an American gentleman who is well known, both in England and in his own country, by his writings on this subject. By a careful comparison of the rates of wages and the prices of the principal articles which enter into the consumption of the labouring classes, he has arrived at the conclusion that the rise which has taken place since the time when the Morrill tariff was adopted has been much less in the case of wages than in that of prices. Wages have risen considerably, even when measured in gold, the rise being, as he tells us, 50 per cent. in the case of unskilled labour, and 60 per cent in that of mechanical labour during the period 1860-8. But the rise of prices during the same period averaged 78 per cent., so that the labourers suffered a real loss of about 20 per cent. in their wages. This result cannot be explained by anything except the tariff, for the effects of the paper currency have been eliminated by confining the comparison to cases in which all amounts are reckoned in gold, and taxation, which is the only other circumstance which might be adduced

to account for the fact, has been shown by Mr. Wells to be quite inadequate. It does not appear that the Congress which adopted the tariff were chiefly actuated by a desire to protect native industry, but they were in such haste to create fresh taxes for meeting the expenses of a civil war that they did not stop to consider whether those that were proposed would or would not be protective in their operation. The manufacturers and other traders concerned were adroit enough to seize the opportunity of getting taxes imposed which seemed to favour their particular interests, and to make a profit out of the embarrassment of their country. In the able essay which Mr. Wells contributed to the series published by the Cobden Club in 1871-2, Congress is described as proceeding on no other principle than that pursued by the Irishman at the fair, "Wherever you see a head, hit it." Wherever they saw any sign of wealth they proceeded to tax it, and the reckless haste with which they acted often led them to impose such high duties on native products as encouraged importation until corresponding import duties were imposed. One case is mentioned in which a tax was laid on copper, from which the Government derived less than it lost by having to pay an increased price for its own copper. In other cases, duties were imposed on spirits, and an exemption was granted to those which had been made before the Act was passed. The very men who had suggested the tax had taken care to manufacture large quantities beforehand, and were able, while escaping from payment of the tax, to sell their stocks at the high prices which were paid for similar liquor on which it had been paid. In other cases, spirits on which the excise duty had been paid were entered in the Custom Houses as intended for exportation, whereupon the manufacturers were entitled to a drawback, or, in other words, a return of the money which had been paid. The object of this provision was to prevent the duty from putting a stop to the export of American spirits, and a similar policy is usually adopted where excise duties are imposed. In some cases, however, the system led to the perpetration of scandalous frauds. By the connivance of the officials concerned, the owners were enabled to withdraw their casks of spirits from the warehouses and to substitute others containing little more than water ; and when it had been reported that these casks had arrived at a foreign port, the owners received the drawback and were released from further liability. That these and similar abuses should have been submitted to during the war was no more than might have been expected, but that a tariff in which nearly every article is taxed should have been maintained during so many years of peace, is a fact which can only be accounted for by the confidence of a majority of the people in the truth of the doctrines taught by

Mr. Carey and others. In England, every effort has been made to repeal Customs duties, and the articles which are subject to them may almost be counted on the fingers. In the United States, a duty of 35 per cent. *ad valorem* was, as a rule, imposed on every article imported from abroad, and the inconvenience resulting from such an arbitrary rule must have been considerable. The unforeseen effects which may follow from this mode of proceeding are curiously illustrated by an anecdote told by Herr Julius Faucher in an essay included in the same series as that of Mr. Wells just referred to. A tariff had been adopted, which, after specifying duties on various articles imported into Prussia, imposed an uniform duty of half a thaler per hundredweight on all articles not previously named, and this continued in operation for many years without attracting much attention. Herr Faucher, however, tells us that, "One fine morning in 1864, the Prussian Minister of Commerce, Count Itzenplitz, who still occupies that place, took the House of Deputies of the Prussian Landtag by surprise, by soliciting their assent to an isolated measure of tariff reform, certainly never heard of before. He did not attempt to justify it at all, for in this case there was, as the reader soon will see, not the slightest necessity for it. He begged, namely, to be authorised by the House to propose to the Zollverein Conference that henceforward sea-water might be imported duty-free across the land frontier. The members did not know whether they could trust their ears. Here and there they got up from their seats, leaning forward and crying, "What? Say it again!" "Not understood," and the like. Whereupon the Minister related that it had become necessary in the previous year to stop by order in council—the sanction of the Landtag being reserved—the general import duty of half a thaler on the hundredweight upon sea-water imported by rail across the land frontier at Wittenberge from Hamburg, and at Emmerich from Rotterdam, for the oyster-shops of Berlin and Cologne, and for other uses. "The communication was received with roars of laughter, in which our jolly Minister of Commerce joined heartily." (p. 276). Herr Faucher, who was himself one of the deputies present on the occasion, took advantage of the incident to obtain the repeal of the whole clause. If the American tariff has not led to any such ridiculous consequences, it has at least produced equal inconvenience. For the benefit of the manufacturers, high duties have been imposed on foreign manufactured articles, and the producers of raw material have at once asked for similar protection for their industry. When this has been granted, the manufacturers have lost through the dearness of their material as much as they have gained by the exclusion of foreign competition; and Mr. Wells contends that the system can only be called protective on the

principle of "lucus a non lucendo." A heavy duty was imposed on English steel for the benefit of American iron-masters, but those who were engaged in manufacturing goods from steel complained that the duty was a great impediment to their business. It was difficult, if not impossible, to produce steel in the United States equal in quality to that made in England, and the American manufacturers who produced for exportation were often required to use English steel. But they were thus obliged either to pay the high duty or else to lose the contract; thus affording an example of one of the many ways in which restrictions on imports bring about a diminution of exports. There is thus a constant struggle going on in the United States between the different classes of producers, each of whom desires protection for himself, and, at the same time, freedom from the restrictions which are imposed upon him for the benefit of others. A French writer of some ingenuity, M. Alby,* contends that where all interests are equally protected no one has any right to complain, and that injustice is only perpetrated where a few classes are protected at the expense of the rest. According to him, it is unjust that millions should be compelled to pay dear for iron in order that a few thousand iron-workers may be benefited, but the injustice becomes less and less as the number of protected trades is increased, and falls to zero when all are protected. In the case of the United States, it is obviously impossible to apply M. Alby's imaginary system, for the farmers of Illinois and the gold miners of California can derive no benefit from protective duties on foreign corn or gold. These classes feel the full weight of the tariff which raises the price of nearly everything which they buy, while they cannot console themselves with the reflection that it secures them a better market for their produce than they would otherwise enjoy. But even if it were possible that every class of American producers could receive a compensation such as is suggested by M. Alby, it would not follow that no one would have a grievance to complain of. According to the theory, every trade would be protected, which is the same thing as saying that every article would be produced in the country at a greater cost than would have been necessary if it had been imported; from which it follows that every consumer would be forced to submit to a greater sacrifice in order to obtain what he wanted. Every one would be in the same predicament, and could hardly complain that others had not acted towards him in the same spirit as he had acted towards them; but, nevertheless, every one would be worse off, and the system would be foolish, if not immoral.

Now that the system of Free Trade has been adopted to the fullest

* Revue des Deux Mondes, October 15, 1869.

extent by one important commercial country, and efforts have been made to secure its adoption in many others, the advocates of Protection are obliged to abate something of their pretensions, and to content themselves with recommending, as a temporary expedient, what they formerly demanded as essential to industrial prosperity. Many of them now tell us, that though there are countries which can afford to do without Protection, there are others which require to be nursed and sheltered for a time until they are able to hold their own against foreign competition. Mr. Carey and other writers, both in the United States and in the British colonies, who adopt this line of argument, derive some support from the well-known passage in Mill's "Political Economy." "The only case in which, on mere principles of Political Economy, protecting duties can be defensible, is when they are imposed temporarily (especially in a young and rising nation), in hopes of naturalising a foreign industry, in itself perfectly suitable to the circumstances of the country. The superiority of one country over another in a branch of production often arises only from having begun it sooner. There may be no inherent advantage on one part, or disadvantage on the other, but only a present superiority of acquired skill and experience. A country which has this skill and experience yet to acquire, may, in other respects, be better adapted to the production than those which were earlier in the field ; and, besides, it is a just remark of Mr. Rae, that nothing has a greater tendency to promote improvements in any branch of production than its trial under a new set of conditions. But it cannot be expected that individuals should, at their own risk, or, rather, to their certain loss, introduce a new manufacture and bear the burden of carrying it on until the producers have been educated up to the level of those with whom the processes are traditional. A protecting duty continued for a reasonable time will sometimes be the least inconvenient mode in which the nation can tax itself for the support of such an experiment. But the protection should be confined to cases in which there is good ground of assurance that the industry which it fosters will, after a time, be able to dispense with it ; nor should the domestic producers ever be allowed to expect that it will be continued to them beyond the time necessary for a fair trial of what they are capable of accomplishing."* That this passage should have become popular among Protectionists of the United States and of the British Colonies, is natural enough, for, as Mr. Rogers says, "The circumstances in which they are situated exactly square with the hypothesis of Mr. Mill. The countries are young and rising, industrious, as yet nascent, are thoroughly suited to the natural capacity

* Book V., chap. x., sec. 1, vol. 2., pp. 537-8. 6th Edition.

of the region and of the people, the latter being of the same stock with the mother country whose manufactures they prohibit or discourage. There is no reason, apparently, except that of priority in the market, why the industry of the old country should not be transplanted to the new. Hence, I repeat, Mr. Mill's concession is perpetually quoted, and is perpetually mischievous."* What advantage is to be gained by the naturalisation of a new industry in such circumstances is not very clear, for if it was one which could hold its own, no protection would be needed; and if it could not, it does not appear what compensation the country would receive for the sacrifice submitted to. The history of industry is full of instances in which individuals have tried, in spite of heavy losses, to naturalise a new industry in their country; and, indeed, this kind of enterprise rather needs checking than encouraging. Of course, if it is assumed that the gains will exceed the losses, the experiment is justified on economic grounds, for, by the hypothesis, it promotes the increase of wealth; but the real question is whether there is any chance that such an experiment will succeed. It is not necessary that native producers should be able to equal their foreign rivals in order that they may introduce a new industry, for they may be able to produce a small quantity at a cheaper rate, although they cannot undertake to supply all that is required. To quote again from Mr. Rogers:—"Every country enjoys a natural protection to its manufactures. When the article is cheap and bulky, the cost of carriage is equivalent to a prohibitive duty; when it is cheap and light, the same element of cost, amounting to a considerable per centage, is a protective impost. In the great majority of cases this charge and similar incidents attached to a foreign commerce, are abundantly sufficient to give a legitimate stimulus to home production." (p. 234). This natural protection affords to producers an opportunity for producing on a small scale to supply their immediate neighbourhood, and if the new conditions lead to any improvement, they can afterwards extend their operations. In such a case as the iron-trade of the United States it is evident that the more fertile mines can be profitably worked in spite of English competition, and a duty which prevents or obstructs the importation of English iron does not naturalise a new industry, but simply gives an unnatural extension to one which would exist without it. Thus it certainly compels American consumers to pay dearer for their iron, while even if American producers were able to maintain their ground after the repeal of the tax, proof would still be wanting that the inconvenience suffered during its continuance was outweighed by the advantage of producing at home what might be imported from abroad.

* Manual, Chap. xvii., p. 234. 2nd Edition.

But what constitutes the strongest objection to Mill's argument is the impossibility of finding any authority competent to decide which industries ought to be naturalised, and how long a period of Protection ought to be granted to them. Mr. Rogers asks "Again, who shall decide whether a particular industry should be developed in a country by protective regulations? Who shall determine the period at which the protection shall cease? Is it not manifest that the selection of favoured industries (of course, I except those which may be conceived as absolutely necessary to the well-being of the country) and the prolongation of the term of protection will be a matter of perpetual intrigue, will be a powerful means for demoralising the administrative or legislative body which makes or extends these concessions?" (p. 235). Private individuals often make egregious mistakes in the selection of a branch of industry which they attempt to naturalise in a new locality. Is it to be supposed that governments will possess greater powers of discrimination? Individuals have the strongest motive of self-interest to induce them to obtain all the data on which to found a right conclusion, but it can matter very little to legislators whether their experiments succeed or not. When we remember how numerous are the instances in which laws passed to regulate industry have produced evil effects never dreamt of by their promoters, it seems the height of temerity to entrust legislators with the power of deciding a question which presents so much difficulty and is at the same time of so much importance as the propriety of introducing a new trade into a country. In Australia, many efforts have been made to produce wine from native grapes, but these have not met with much success if we may trust Mr. Trollope, when he tells us that he seldom found Australian wine that was worth drinking. If foreign wines were excluded in order that the native wine-growers might have time to establish their trade, what compensation could be obtained by those who were forced to drink bad wine during the process? How could the Australian legislators decide how much time should be allowed? If they were content to take the advice of the wine-growers, a very long period would be assigned, and if they did not do this, who would be benefited? Mr. Trollope tells us that the protective tariff of Victoria excludes the strawberries of Tasmania, and that pumpkin-jam flavoured with strawberries is sold in Victoria as strawberry-jam. Can this be considered as one of the improvements in manufacture which result from its trial under new conditions, and if not, how much time ought to be allowed for some improvement to be discovered? So far is it from being true that a temporary protection stimulates producers to effect improvements, that, on the contrary, there is plenty of evidence to show that its

maintenance encourages the natural unwillingness of all men, whether manufacturers or not, to make a change in their habits. A curious anecdote is related by Mr. Wells which illustrates the enervating effect of Protection on American manufacturers :—"In the summer of 1867, while studying the industries of Europe, the Commissioner visited a factory, the products of which had for many years found an extensive market in the United States. The product being staple, and the industry one that was exceedingly desirable should be extended in the United States, the Commissioner studied the process of manufacture with great care, from the selection of the raw material to the packing of the finished product, the rates of wages, the intelligence of the operatives, and the hours of labour. When his investigation was completed, the Commissioner said to the foreign manufacturer, a man whose name is a household word in his own country for integrity and philanthropy, 'The duty on the import of these articles into the United States is respectively 35 per cent. and 30 per cent., *ad valorem*, and 20 cents. per pound ; if you have given me your prices, products of machinery, and cost of labour correctly, I do not well see how you could export your fabrics to the United States, even if there was substantially no duty, as the advantage of raw material is mainly upon our side.' 'I am sometimes at a loss myself to account for the course of trade,' was the reply ; 'but perhaps it will help you to a conclusion if I tell you that some time ago, finding ourselves pressed with German competition, we threw out our old machinery and replaced it with a new and improved pattern, and the machinery by us rejected was sold to go to the United States.' To complete the story it is only necessary for the Commissioner to add that the owners of this second-hand machinery have, since its importation, demanded and received an increased protection on its products."* There can hardly be a more striking example of the effects of Protection, and if the duties here referred to had been nominally imposed for a limited time, the manufacturers could always have indulged the hope that they would be renewed. Whether the renewal was granted or not they would still think that they could safely put off the troublesome business of improving their machinery until they knew for certain that they would have to face foreign competition. If a government wishes to see a new industry naturalised in its territory, it can promote this object by removing all obstructions to domestic industry or foreign trade, but if it endeavours to go further and to compel its subjects to produce at home what they could import from abroad, it enters on a course which is almost certain

* Report, 1868, p. 74, quoted in Cairnes' "Leading Principles," pp. 485-486.

to do more harm than good. Consumers certainly suffer during the process, and even if the new industry is able to stand alone after the protection has been withdrawn, it must always remain a moot point whether home production possesses any intrinsic advantages over importation.

The cry for Protection, which was once so loud and frequent, is now seldom heard in England, but manufacturers still regard the entry of foreign goods as in some way signifying that English industry is declining, and that foreigners are able to beat them in their own market. A few instances are cited as if they were the precursors of a great revolution which is to deprive England not merely of its leading position with regard to other countries, but of the skill and enterprise which do so much to promote the comfort of its inhabitants. Theories are not wanting to account for the alleged decline of the national vigour, which at one time is ascribed to the refusal of the labourers to content themselves with reasonable wages, and, at another time, to the want of education which renders them inferior to the labourers of the Continent. The first of these theories affords to the enemies of trades' unions an opportunity for charging their leaders with ignorance and folly which are ruining the very classes for whose benefit unions exist. One writer, who has proved himself to be a true friend to the unions, has been so much impressed with the force of these arguments, that he thinks it his duty to warn their leaders against pursuing a policy which would lead to such results. He advises them to abstain from demanding a rise of wages in those cases where the concession, if granted, would place English producers at a disadvantage as compared with their foreign rivals, because this would be followed by the loss of the trade, and the defeat of the very purpose for which the demand was made. He then says, "There is some reason to apprehend that the limits within which unionist exactions ought in prudence to be restrained have already been in some cases overstepped. The importation into Hull of doors and window-frames from Stockholm; the order from Russia for 40,000 tons of iron obtained in 1866 by a Belgian firm in opposition to English competition; the contract with the Dutch Government for rails wrested in the same year by a Liege house from English iron-masters; the fact of Belgian rails having been laid down on the East Gloucestershire railway, and of there being French locomotives running on the Great Eastern line—these, after every abatement of their significance that can be suggested, are still ugly symptoms which our unionist workers in wood and iron cannot wisely disregard. I have seen it somewhere stated (by Messrs. Creed and Williams, if I recollect rightly) that the order for 40,000 tons of iron alluded to above, involved wages to the amount of £150,000.* If

* Thornton on Labour, Second Edition, p. 293-4. *Note.*

Mr. Thornton, whose words are here quoted, were merely contending that trades' unions should not authorise a strike where it would have the effect of preventing the employers from obtaining a lucrative contract there would be nothing to object to in his argument, but it will be observed that nothing is said of any connection between the particular instances recorded and strikes in those particular trades. He argues that because certain goods are imported which one might naturally expect to see produced in England, therefore the operation of trades' unions has been misdirected, and has inflicted an injury both on the capitalist and on the working classes themselves. This conclusion, however, is not justified by the premises. The fact that Hull imports doors and window-frames from Stockholm does not show that the labourers of Hull are not able to earn as much wages as when they did their carpentering for themselves. It simply shows that their industry has taken a new direction, and that, instead of making their own doors and window-frames, they make other things to be exported to Sweden in exchange for these articles. Sweden is better fitted than England for the production of timber, and it would seem to be a more natural state of things that timber should be manufactured in the country where it is grown than that it should be transported across the sea before it is worked up. That trade should have taken such a turn is a fact which may be accounted for without assuming any diminution in the capacity of the artisans of Hull for doing their work or regulating the scale of their wages. A similar migration of industry has been observed in the ship-building trade. When ships could be built of wood they could be built in the Thames as well as anywhere else, but now that they are chiefly built of iron it is found cheaper to construct them in the neighbourhood of the mines from which iron is procured; and the Clyde having an advantage in this respect, is preferred to the Thames. The consequent decline of shipbuilding in London has been ascribed to the existence of trades' unions among the operatives engaged, but those who reason thus, forget that unions exist on the Clyde quite as much as on the Thames. To proceed to another instance cited by Mr. Thornton, that of the rails supplied by a Belgian firm to the East Gloucestershire Railway. Here, again, the very fact of the importation indicates that there must have been a corresponding exportation, and that some other branch of industry must have been well employed. But Mr. Brassey supplies us with facts which entirely take away the importance of the incident, even as illustrating the position of the iron trade. In his chapter of the "Comparison of Progress of Nations" he says:—"It was also said that Belgian rails were being largely imported into England, and it is true that some 600 tons

for the East Gloucestershire Railway were supplied by a Belgian firm in 1865. The price of these rails was £6 10s. per ton, or thereabouts, delivered at Gloucester. But a solitary instance like this proves nothing as to the general comparative prices of English and Belgian rails. It was because our iron-masters were more fully employed than the iron-masters in Belgium, and because the prices of rails had, in consequence, fallen more rapidly in Belgium than in England, that the order in question was executed abroad. Since the year 1865, rails have been made in England at a cheaper rate than that paid for the Belgian rails supplied to the East Gloucestershire Railway."* Thus it happens, curiously enough, that the very instance which is quoted to show the decline of the English iron trade testifies to its prosperity, and the order was given to a Belgian house because the English manufacturers were fully employed. Mr. Brassey, in the same chapter, throws some additional light on another of the cases cited by Mr. Thornton. He says, "Serious alarm was felt when, in 1865, fifteen engines were ordered for the Great Eastern Railway from M.M. Schneider. These misgivings would probably have been allayed had it been generally known that at the same time when the fifteen engines were ordered from Creuzot, forty other engines were ordered from English firms, and that when M.M. Schneider were subsequently asked to undertake the construction of twenty-five more engines at the price they had agreed to accept for the fifteen engines originally ordered, the offer was declined." (p. 183.) Here, again, the incident loses its significance when we see that a larger number of engines were ordered from English firms, and, in fact, proves little more than that MM. Schneider made one of those bad bargains to which foreigners occasionally commit themselves in their eagerness to compete with English manufacturers. That engine-building is carried on more largely on the Continent than it used to be, is a fact which need not inspire any alarm in the breasts of English manufacturers. As railways were invented in England, Englishmen were the first to learn how to make the engines and other articles required for their working, and it is equally natural that as railways are extended on the Continent, foreigners should become equally expert in the arts which minister to them. "Surely," says Mr. Brassey, "it would have been unreasonable to assume that we were to remain for ever monopolists of a trade in which the foreigner only required additional experience in order to enable him to compete with our countrymen." (p. 193.) The other instances cited by Mr. Thornton are not sufficient to establish any general decline in English industry, but merely show that in

* Work and Wages. Fifth Thousand, p. 188.

particular instances a foreign firm has been able to procure a lucrative contract in spite of English competition. Such instances must occur wherever several nations are engaged in the same trade ; and that the English do not always succumb is shown by the intense dread of their competition which foreigners exhibit. In the chapter already quoted, Mr. Brassey furnishes abundant evidence that where fair competition is allowed, English manufacturers obtain the lion's share of the contracts both in engine-building and ship-building, and that in many cases they are only prevented from obtaining more by the protective duties which are imposed for the benefit of their foreign rivals.

Mr. Thornton, in another essay,* has treated the same subject in a different manner. He considers that experience has shown that the industrial greatness of England is on the decline, and he attributes it to the want of technical education. If he does not go so far as to say that the Government ought to establish technical schools in order that English manufacturers may be enabled to hold their ground against their foreign rivals, he at least speaks with evident approval of the Governments of Wurtemberg and other German States which have pursued such a policy. Other writers and speakers besides Mr. Thornton who have advocated the establishment of technical schools have recommended that they should be supported out of national or local taxes, and have referred to the danger of foreign competition as furnishing a ground for prompt action. It is here that their arguments show a kinship to those of the Protectionists, for in both cases the contention is that the bulk of the community should be taxed in order that a particular class of producers may be enabled to find a market for their goods. Yet, if there is any ground for believing that technical education is a great advantage to artisans, the proper persons to bear the expense of it are the manufacturers who would benefit by it. Whatever may be said as to the inability of the artisans themselves to pay for it, there can be no doubt that the manufacturers are rich enough to do so if they wished. The evidence on which Mr. Thornton relies to establish the industrial decline of England is chiefly derived from the results of the International Exhibitions of London and Paris. The first of these, that of London in 1851, afforded, he tells us, proofs of the immense superiority of England over her foreign rivals; but in 1857 and 1862 her superiority was less decided, and in 1867 it had given place to an inferiority. The cause of this change in the relative position of England and the Continental nations is to be found, he tells us, in the serious efforts which the latter had made to devolope their resources to

* Technical Education in England, Cornhill Magazine, September, 1871.

the utmost. Seeing that they could not hope to rival England in the possession of mineral wealth, they determined to do their best to improve the skill of their artisans, and with this view they established the technical schools to which the success which they have obtained is ascribed. What that success has been, Mr. Thornton tells us in the following words:—"Turning to recent parliamentary papers on the subject, we shall find Leeds grieving over the loss of a shawl-trade filched from her by foreigners; Dewsbury lamenting that in the lighter and more fancy woollens Yorkshire is being superseded by the Continent; Hawick complaining that Xerviers, by producing a superior article at the same price, has usurped a larger portion of the Scottish woollen-trade; Birmingham handing in a long list of wares, which used to be specialities of hers, and which are now partially or wholly displaced in common markets by corresponding articles from France, Prussia and the United States; Nottingham confessing that she is obliged to send large quantities of hosiery abroad to get it properly dyed; Macclesfield and Coventry owning that it is no longer French, but also Swiss, silks and ribbons they have to fear. Worst item of all in this sadly significant catalogue, Belgium boasting that, in the fifteen years ending with 1867, the increase in her export of cotton goods was almost exactly twice that of England, or as 292 to 148 per cent." (p. 329). Thus Mr. Thornton accumulates a number of instances in which English manufacturers have been, or have thought themselves, surpassed by foreigners, and thinks that he may generalise the result by saying that England is everywhere, or generally, beaten. He does not stop to consider whether the trade of England is on the increase, but having satisfied himself that foreigners are surpassing us, he infers that our trade must be declining. He expressly says: "In England, national wealth is little else than another name for commercial prosperity, one indispensable element of which is efficiency of labour, which again has now become a relative term, applicable or not, according as the industrial sections of a population excel or fall short of those of other countries in mental culture." (p. 330). But there cannot be a greater fallacy than is implied in the belief that a nation cannot increase in wealth unless it is superior to other countries. How, indeed, could the trade of the superior countries increase if there were no corresponding increase in the trade of the inferior countries with which it deals? As well might it be argued that unskilled labourers could not carry on any trade because they cannot rival the skill of superior artizans. Mr. Brassey commences the chapter already quoted by appealing to a much better criterion to ascertain whether England is, or is not, making progress. He points out that each census shows a material increase in the population, and that the statistics of exports and imports

show an enormous increase during the last twenty years. He refers to the great development of the trade between Europe and the East, and points out that nearly the whole of the increase has been obtained by England. The increase of population affords indisputable evidence of the increase in the resources of the country, and it is difficult to see how France, whose population is diminishing, is to encroach to any serious extent on the domain of English commerce. That English manufacturers ought to make every effort to withstand the foreign competition to which they are exposed, is a proposition which no one will dispute, but it may be doubted whether technical education will afford any material assistance. In Denmark, where technical schools have been opened, the results are far from satisfactory. The mere fact that young men are kept in a school where they can always apply to a teacher to help them over any difficulty prevents them from learning to find out things for themselves, a lesson which is more important to success in life than any which can be learnt at school. Mr. Thornton says himself that there is no school like the workshop, where both the teacher and the pupil have the strongest interest in doing their work well. That some deeper acquaintance with mechanical, chemical, and other scientific principles would be beneficial to artisans a sa matter of culture there is no need to dispute, but those who advocate such an improvement in their education will not materially strengthen their case by appealing to its industrial advantages.

BOOK IV.—TAXATION.

CHAPTER I.—GOVERNMENT.

FUNCTIONS OF GOVERNMENT—EDUCATION—CHARITY—CONVEYANCE OF LETTERS—TELEGRAPHS—RAILWAYS—NECESSITY OF TAXATION.

When Adam Smith devoted his fourth book to the examination of certain systems of Political Economy he attached to the words a very different meaning to that which they now bear. In the introduction to that book he expressly states that the objects of Political Economy are: "First, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and, secondly, to supply the State or Commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign." He did not consider that the "Wealth of Nations" was a treatise on Political Economy, though he thought it necessary to devote a part of the work to the subject. To him and his contemporaries the words suggested ideas which accorded much better with their etymology, and were used to denote the art of managing a government with the same care and success with which a prudent man manages his household. But since his time the meaning of the words has materially altered, and most of those who now write books on Political Economy embrace the whole field which was covered by Adam Smith. A recent Swiss writer, M. Walras,* finds fault with Adam Smith's definition, and expresses surprise at its being deferred until the commencement of the fourth book. The definition is, as he says, inadequate to express the science which explains the laws governing the production, distribution, and exchange of wealth; but as Adam Smith did not attempt to do this, there is no reason to be surprised at his not having succeeded. The field of inquiry which was opened up by Adam Smith has been found to be productive of much knowledge which is useful to statesmen, but even if there were no statesmen to instruct, there would still be sufficient reason for studying Political Economy, as

* Elêments D'Economie Politique Pure Lausanne, 1874, chap. 1.

those words are now understood. M. Walras and many other Economists have taken great pains to show that the object of their studies is not the art of governing well or prudently, but the science which explains the conduct of men engaged in the pursuit of wealth. Mr. Hearn has been bold enough to eschew the phrase altogether, and to give the title of Plutology to his treatise on the science. But the result of his experiment has not been such as to encourage imitation, the strangeness of the title having prevented many who might otherwise have consulted the book from guessing the nature of its contents. I have, therefore, thought it most convenient to retain a phrase which is hallowed by long usage, although it certainly gives rise to some misunderstanding. All the propositions which have been proved by Economists to hold good in respect of the causes which determine the rate of wages, the rate of profit, and the growth of rent, would be equally true if it were not customary for governments to raise any revenue whatever; but as the manner in which the revenue is raised may have a considerable effect on the production and distribution of wealth, Political Economists from Adam Smith downwards have always thought it necessary to devote some attention to the subject of taxation. Political Economy cannot indeed give a complete answer to the question whether a given tax ought or ought not to be imposed, for there are many other things besides Economic arguments to be taken into consideration before a particular tax can be approved or condemned. In order, however, that statesmen may form a proper judgment on the question, they should have the means of estimating the Economic effects of different modes of taxation, and a study of this science will help them in doing this. They will still have to consider in each case whether the object which the tax is imposed to obtain is worth the sacrifice which it entails, and it is for them, not for Economists, to say whether the merits of a particular tax outweigh defects. The only taxes which Political Economy can be said absolutely to condemn are those which are purely protective, but it condemns them on the ground on which every statesman ought to reject them, viz.: that they do not yield any revenue at all, and therefore do not obtain the object for which they are ostensibly imposed. It shows that they do not obtain the object of increasing the production of wealth, and this being the only other purpose for which they are maintained, they are *ipso facto* condemned when it is shown that they are not capable of fulfilling their professed purpose. But with regard to all taxes which do yield a revenue, the business of the Economist is only to point out what will be the effects of levying them in a particular way, upon what classes they will fall, and what are the advantages and disadvantages of different systems of taxations, while it

is for statesmen to compare these, and to choose the system which is on the whole best for the country which they have to govern.

The subject can hardly be discussed without considering what are the functions which a government ought to perform, and this is a question on which the greatest diversity of opinion prevails, and is likely to prevail for a very long period. Disputes about the superiority of particular forms of government have but little interest for the Economist, as the progress of wealth is not affected by the substitution of democratic for despotic, or despotic for democratic, forms of government. It has, indeed, been supposed that if the people have the control of the government in their own hands they will prevent it from imposing heavy taxes, and from incurring expenditure beyond the resources of the country, but experience has shown that republican governments are not less prone to extravagance than monarchical ones. In the whole of South America there is but one monarchy, and this enjoys better credit than any of the numerous republics in the same Continent. In Europe, on the other hand, there is but one State which has permanently adopted a republican form of government, and this is the only State which has no National Debt. Whatever be the form of government, its financial policy is determined by the character of the people, and if they would rather have many public offices and heavy taxes than light taxes and few salaries, their wishes are sure to be indulged whether the offices are created by a royal decree or by the vote of a popular assembly. Whatever be the form of government, a nation is equally disgraced by open or tacit repudiation, and no government would resort to such a practice unless supported by the approval of its subjects. Whatever difference of opinion may exist respecting the functions which a government ought to perform, there is one as to which there is no dispute. It is universally agreed that it ought to protect its subjects from violence, whether on the part of their fellow citizens or of foreigners, and that, wherever the institution of private property exists, every subject ought to receive protection for his property as well as for his person. Whether or not it ought to undertake any other function, it may, at all events, be considered as a joint-stock protection company which undertakes to afford protection to all who choose to employ it ; and taxation may be regarded as the means of obtaining payment from its customers. There is, however, an important difference between a government and an ordinary trading company, in that it does not allow its customers very much choice as to whether they will deal with it or not. Great as are the advantages of division of labour, they are not obtained without a corresponding loss. When a small number of men undertake to perform a function for the rest of the community, they learn to do it better than could be done if

every one acted for himself, but as the great majority cease to perform it, they soon lose the power of doing so, and if any circumstance paralyses the action of the particular class which has undertaken to do it, the people are worse off than if no such separation of employments had ever taken place. In the case of a government, the injury thus occasioned is conspicuous. A few thousand soldiers and policemen are able to protect millions of unarmed citizens, but there still remains the query, *quis custodiet custodies*, and the very fact that the majority have entrusted the government with the task of protecting them renders them unable to protect themselves against the government. As the individuals who carry on the government are little, if at all, better on the average than those whom they govern, the same motives which would induce men to oppress one another in a state of anarchy induce government officials to oppress those whom it is their duty to protect. The establishment of a government does not alter the character of a people, and the character being the same, there must be the same amount of oppression though in a different form. It does not follow that nothing is gained by the substitution of one kind of oppression for another, for the oppression which comes from the government differs from that of private individuals in this respect, that it is more regular, and can be more easily foreseen and provided against. The establishment of a government does not diminish the total amount of suffering, but it distributes the suffering over a larger surface, where it is less keenly felt. Taxation is the method by which the losses caused by the misconduct of the few are distributed over the whole body of the people instead of being borne entirely by those who have been victimised. However bad a system of taxation may be, men will rather submit to a regular tax whose amount they know beforehand than to an uncertain exaction dependent on the caprice of a powerful robber. In Sicily, at the present time, it is a common practice for people to pay a stipulated sum to a brigand-chief for a safe conduct which will secure them from molestation by brigands, and it is possible that some governments may owe their origin to nothing more honourable than successful brigandage. When the question is discussed what benefits a government confers upon its subjects, we ought to know what amount of property would be taken from them if they were in a state of anarchy, and compare this with the actual amount which is taken from them by the government. It is, of course, impossible to do this accurately, but it is well known that the number of crimes increases when a government is paralysed by a revolution or a civil war, and that the return of a stable government is always welcomed as a benefit to industry. As it is universally admitted that governments ought to afford protection to the persons and property of their subjects,

it only remains to be considered whether it ought to undertake any other offices. Looking at the question as an economic one, it is evident that there is a great advantage in confining every company to a single function, and that as a government is a protection company there is a *prima facie* case against its undertaking any other office than that of a protector. Every additional office which it assumes must, *pro tanto*, diminish its power of effectually performing what it has already undertaken. If a railway company were to undertake the business of banking and insurance, it could not be expected either to manage the railway as well as it had done before or to be able to compete in its new enterprises with companies specially formed to carry on banking and insurance. Whatever be the form of government, the control of the central authority must become weaker in proportion to the increase in the number of functions which it performs, and as the control becomes weaker so must each function be performed in a more negligent manner. Nor is this the only objection to the policy of entrusting a government with functions which can be performed by private associations. It is almost proverbial that government business is worse done, and done at a greater cost, than private business; and it is easy to discover a reason why this should be so. Whenever the consumers of a particular article are free to procure it wherever they find it best and cheapest, there is a constant struggle among producers to obtain custom by supplying the public on better terms than their rivals; and those who succeed best in doing this are enabled to continue in business while those who are less active, or less disposed to adopt improvements, are deprived of support and at last obliged to cease producing altogther. Private competition cannot attain perfection, for human nature is not perfect; but, however slow the process may be, those individuals who do the work best must succeed, and those who cannot satisfy their customers must at length cease working altogether. When a business is carried on by a government, this wholesome check on negligence is altogether removed. A government can compel its subjects to deal with it by leaving them no other alternative than to buy from it or to go without the article which they want; and though it is true that the actions of a Government are ultimately controlled by its subjects, the pressure which they can exert is very slight in comparison with that to which private traders are continually exposed. When the business of carrying goods from place to place is left open to private competition, several houses at once enter into it, and those who wish to employ them have the certainty that the rates which will be charged can never be much above the lowest which will suffice to yield the usual rate of profit to the capitalists engaged. But when, as

is the case in most countries, the business of carrying letters is monopolised by the government, those who wish to send letters have in most cases no alternative except paying the government price or submitting to the much greater inconvenience of not sending their letters at all. If complaints are made that the rate of postage is too high, the government officials are always ready with the answer that the state of the revenue does not admit of a reduction, and it is very difficult to induce them to make the experiment of reducing the rate for a time in order to see whether the increase of business would not be great enough to compensate for the loss. Private companies have very little difficulty in altering their rates for the conveyance of persons or telegrams and in returning to the old rates if the change is not found to answer, but government officials dread nothing so much as a serious alteration in their rules. The fact that there is no one in a government office to whom the success of the business is of so much consequence as that of a private company is to its directors and shareholders, renders it necessary to adopt numerous and complicated rules to insure that all who are employed do their duty; and, however well these rules may be devised, they must impose some inconvenience on the customers, while they can never secure the same efficiency as is found in a well-managed company. One of the numerous disadvantages which is inseparable from undertakings carried on by government is the great temptation which is always held out to the abuse of patronage. The word nepotism has come into existence in order to express the system of appointing the relatives of the sovereign or of high officials to all places which are worth having without regard to their fitness to perform the duties. Private firms are no doubt exposed to the same danger, but they are better able to protect themselves against it. However partial a father may be, he has better means of knowing his son's character than a minister has of knowing that of his friend's sons or nephews, and he has at the same time the strongest motive to refrain from admitting his son into his own business unless satisfied of his competence to carry it on with prudence and success. In spite of all these advantages, private traders do make serious mistakes, but the consequences are not spread over the whole trade of the country, but are confined to the extinction of those houses which have been badly managed. In a government office, the effect is permanent, for it very rarely happens that jobbery is carried to such a scandalous extent as to lead to the suppression of the office, and the public are continually made to bear the consequences of inefficient management. The system of open competition, which has of late years been introduced in this and other countries has, no doubt, done much to prevent favouritism in the case of first appointments, but no

system of examination can be devised which will select candidates so well as is done by private individuals where their own business is concerned, and the most important thing to be done is not to select the best candidates in the first instance, but to secure that they shall do their work thoroughly when appointed. It is next to impossible to devise rules with regard to promotion which shall neither, on the one hand, leave any room for favouritism, nor, on the other, unduly fetter the discretion of the head of the office, and encourage mediocrity at the expense of ability. Rules for securing diligence are of little use unless it is somebody's interest to enforce them, and this is a point in which a government office must always be inferior to a private concern. The complaints which are made when a government office fails to do its work serve rather to irritate the officials than to produce any useful reform. Finding that these complaints are often ill founded, and that even when well founded they are often exaggerated, officials naturally come to regard complainants as a nuisance, and are generally able to concoct some elaborate excuse for doing nothing. It is quite true that a similar unwillingness to adopt new suggestions is exhibited by the officials of private companies and by many private traders, but, as has been said before, the ordeal of bankruptcy is always in store for those who are the least inclined to improve. A government office may be worked for years at a loss, as is actually the case with the post-office in the United States, and is, or was, the case with the money-order department of our own post-office. Even when a government has been so hopelessly extravagant that it is obliged to confess its inability to pay its debts, the catastrophe does not lead, as in the case of a private company, to its being wound-up and prevented from incurring further debts, but, having made its confession, it continues its business as usual, while its creditors have only to submit to their losses. Thus, the most efficient of all checks is removed, and, as a necessary consequence, government officials are noted for their unwillingness to adopt improvements, for their slowness, and their indifference to the amount of trouble which they give to those who have recourse to them. It is very seldom that, when fair competition is allowed, a government office can compete with a private company, and the struggle generally ends in the forcible establishment of a monopoly.

It is said that though as a general rule a government ought not to carry on any branch of trade or industry, there are certain departments in which it may do so with advantage, and others in which it is bound to interfere. In spite of all that has been written by Wilhelm Humboldt in Germany, by De Tocqueville in France, and by Mr. Spencer in England, in favour of restricting the action of

government to the single task of affording protection, there still remains a strong party who urge with great vehemence that the sphere of government action, far from being too extended at present, ought to be very much enlarged. Stated generally, the argument of this party is, that if it is the duty of an individual to do a certain thing it must also be the duty of other individuals to compel him to do it. It is the duty of every parent to educate his children, and it is therefore contended that it is the duty of parents collectively to see that all children receive a good education. Similarly, it is the duty of a rich man to relieve the sufferings of the poor, and it is therefore contended that it is the duty of the whole people to compel all who can afford it to contribute to the relief of the poor.

This argument, however, if it is sound, leads to consequences which are, perhaps, hardly realised by those who openly or tacitly use it. If it be true that those who consider a certain system of education to be good are bound to force those who think differently to adopt it, there is no reason why children alone should be kept under control in this respect. If the majority may decide on compelling every child to learn reading and writing, they may, with equal justice, compel adults to learn foreign languages, physical science, or whatever else they may consider it desirable to know. The cause of education suffers in proportion to the extent to which the interference of the government is carried. If schools are supported by the government, they are more or less relieved from the check on negligence and incompetence which is imposed on private schools by the necessity of keeping up the number of the pupils. If the government prescribes the subjects which are to be taught, there is a constant danger that the curriculum will be confined to those studies which have been long in vogue, to the exclusion of new ones which changing circumstances render necessary. When a government has decided to give assistance to schools, it can hardly be restrained from inspecting them in order to see that their management is satisfactory. The opening which is thus afforded for centralisation is sure to be enlarged till it reaches its climax in the state of things described in the old story of the French Minister of Public Instruction who said that he was able to name the very lesson which a million boys were learning at the time when he was speaking. If the system of education were already perfect, there would be no harm in imposing it on all children, but as this is very far from being the case, it is necessary that experiments should be made in order to improve it, and this cannot be properly done unless those who introduce an innovation are allowed to compete fairly with those who adhere to the established routine. Whether the government prohibits the establishment of private schools, or grants

money to assist those which are managed or supervised by its own officers, it gives an advantage to certain teachers which is not enjoyed by others, and, unless its decisions are regarded as infallible, it follows that encouragement must be sometimes given to bad schools, while good ones are discouraged. Whenever this happens, an injury is inflicted, and not only on all the teachers who are deprived of pupils, but on all the parents and children who might have benefited by the establishment of good schools, and a heavy responsibility rests on those who maintain a system which is liable to gross abuse. When a public and private school enter into competition, the former is generally able to offer instruction at a cheaper rate, because the taxpayers can be compelled to make up any deficiency which may be caused by its want of popularity. An inducement is thus held out to parents to select the cheapest, rather than the best school for their children, and, in so far as it is due to the action of the government, the system undoes, by injuring the parent, what it does by improving the children. The argument most commonly adduced in favour of State interference with education is, that parents who are not themselves educated cannot tell the value of education, and that unless some outside authority interferes, the children will never rise into a better position than their parents. But the assumption contained in this argument is one which is plainly opposed to facts, for if it were impossible that uneducated parents should educate their children, education could never have become so generally diffused as it is now in civilized countries. There was a time when it was considered that reading and writing were not necessary parts of the education of an English gentleman, but no member of this class would now think of allowing his children to grow up without these accomplishments, although the government has never thought it necessary to interfere in the matter. What the richer classes have done for themselves the poorer classes would do if time enough were allowed for the process. It is said that this cannot be expected because it has not yet come to pass, but this merely shows that the labouring classes do not yet feel the necessity of obtaining such an education for their children. They are, at least, quite as likely to be right as the members of other classes who wish to legislate for them, as they have both better means of comparing the condition of educated and uneducated children, and they have the motive of parental affection impelling them to make the best decision in their power. It seems to be taken for granted in these discussions that what children learn they will remember, and that, if once taught to read, they will make as much use of their knowledge as the higher classes do. Yet experience is continually proving that a very short time after leaving school is enough to allow children to forget what they have learnt, and

that reading and writing form no exceptions to the general law, that a man loses in time the power of doing what he has ceased to practice. Even if this were not so, and if every labourer remembered through life what he had learnt at school, there would still remain the question whether what he had learnt was of more importance than what had been sacrificed in order to learn it. Something must be sacrificed for the time and money which are spent in securing school education which would have been spent in some other way if the schools did not exist, and children are continually learning something, whether they are in school or not, while the money, if expended on the physical comfort of the children, would confer on them a benefit of another kind. In German schools, for instance, the desks are frequently so badly arranged that the childrens' eyes are injured in the very act of learning their lessons, and yet the statistics of school attendance are triumphantly quoted as showing the benefit conferred on the people by the government which is depriving them of the most valuable means of acquiring knowledge, good sight. A curious commentary on the system of entrusting the education of the poor to the State is furnished by the experience of Miss Rye, who is so well known for her attempt to improve the condition of pauper children. This lady has, during the last few years, had several hundred children under her care, and she tells us that the result of her experience is, that the children who have been found utterly neglected in the streets are more docile, more affectionate, and in every way morally superior to those who have been brought up in workhouses, who only excel in the mere knowledge of reading and writing. In England, those who advocate compulsory education generally seek to impose it on the poor, while they consider that the rich may be trusted to send their children to school of their own accord ; but on the Continent, where compulsion has been longer and more generally tried, it is equally applied to rich and poor. This is logical enough, but when a government presumes to interfere in such a matter it is doing what cannot possibly be productive of much good, and must, in individual cases, inflict great hardship. When government officials have to decide on the fitness of teachers they must adopt some simple test, such as having received an University degree, or passed some examination, and however carefully these tests may have been devised, they cannot fail to exclude many persons who are quite fit for the posts which they wish to occupy. It does not follow that a person who has a thorough knowledge of a subject is therefore able to teach it, nor, on the other hand, that one who knows very little may not have the character and manners which are sufficient to counterbalance this defect, and may not make the best teacher. No doubt a bad teacher may get employed in a private school, but when a govern-

ment meddles in the matter it is apt to enforce a rigid rule withou regard to consequences, and the mistakes which it commits are more dangerous in proportion to the extent of its power. When we are told how many schools have been opened and how many scholars have been forced to attend, we ought to be told, also, how many schools have been closed and how many scholars prevented from attending in consequence of the inability of an experienced teacher to pass an examination prescribed by officials who know little or nothing of the wants of the localities to which their rule is applied. Wherever the State interferes with education, it is always confronted by what is commonly known as "the religious difficulty." Many persons who are practically engaged in teaching tell us that this is merely "a platform difficulty," and that it is easy enough to educate children together though their parents belong to different sects. But the question is not whether parents can be induced to send their children to a school in which doctrines of which they do not approve are taught, but whether a system can be devised which will not give an advantage to one sect and place others at a corresponding disadvantage. Wherever a State church exists, the dominant sect is sure to obtain some advantage from the mode in which the system of State education is administered; and, unless the country is in that extremely rare situation in which there is no dissent, the privileges which are accorded to one sect are felt as a grievance by others, and the government becomes more or less unpopular from the impossibility of pleasing everybody. We know how recently our own Universities have been so far reformed that a considerable share of their endowments may be competed for by persons who do not belong to the Established Church; and, even now, a considerable number of fellowships, and, what is of more importance, headships are reserved for clergymen. France boasts that she has attained religious toleration, yet Auguste Comte was deprived of a place in a government school for publishing his great work on "Positive Philosophy." He was engaged in teaching the innocent subject of mathematics, and it was never even pretended that he was an incompetent teacher or that he made use of his position to instil his doctrines into the minds of his pupils. Yet, because his work was opposed to the prejudices of a numerous sect, this remarkable philosopher, the greatest whom France has produced during the present century, was deprived of the means of earning his bread, and was reduced to a dependence on the charity of friends and admirers. The more recent case of M. Renan, though there was perhaps more excuse for interference, as the complaint was directed against the lectures which he actually delivered from his professorial chair, yet serves to illustrate the injustice which the system of State Education necessarily involves. The minister who removed

M. Renan was no bigot, for he offered the displaced professor another official appointment, and nominated a Jew to succeed him; but the fact remains that this eminent scholar was deprived of his professorship because his public teaching was in opposition to that of a body with which the French Government wished to remain on good terms. If there were several universities in France, all independent of the State, each of them might afford instances of intolerance, but the injustice would be less glaring if every important sect, school, and party were able to establish its own university, where those who sympathise with its objects could be sure of finding a refuge. It is, perhaps, impossible for a government to keep altogether clear of education, for it has long been a common practice for people to leave property for the purpose of encouraging education, and the State, as the guardian of property, is obliged either to take care that these endowments are properly applied, or to take the extreme course of suppressing them altogether. Indirectly, too, the state may exert some influence on the progress of education by the methods which it may adopt in order to secure the efficiency of its own servants. It is absolutely necessary that many employés of the Government should be able to read and write, and by simply making it known that no candidates for official situations will be accepted unless they possess this elementary knowledge, a government may do much to encourage the practice of teaching reading and writing to children. It is said that a recruit who can read and write can learn his drill in half the time which an illiterate recruit requires, and in a country where military service is compulsory an inducement is held out to all who wish to shorten their time of service to prepare themselves by literary culture. In countries where military service is almost universal as well as compulsory, the government is not exceeding its functions when it provides that all, or nearly all, its male subjects shall learn to read and write, for nearly all of them are its servants, and it has the same right as any other employer to require that those whom it employs shall in some way or other make themselves fit to do their work. But when it attempts to pass beyond these limits, and to dictate the kind of education which shall be given to children who are not likely to enter into its service, it encumbers itself with a duty which it cannot adequately discharge without at the same time failing in respect of its other and more important duties. Every new office which is established increases the difficulty of effectively controlling the action of the government, and every new object of expenditure makes it necessary to resort to some new tax, which, however well selected, must interfere with

the industry of the nation. By attempting to direct the education of the people, the government does not, as seems to be often assumed, make a clear addition to their well being, but simply diverts into one channel the energy of resources which would otherwise have been turned into another. The standard of education cannot be raised above the tastes of the people by the action of government, for the officials who direct education are themselves inhabitants of the country, and draw their ideas from their fellow-citizens who surround them. If it were possible to elevate the standard in this way, the attempt would be useless for want of the indispensable condition—the desire of the people to learn. By turning its energy in this direction, the government, while it impairs its own efficiency in other respects, at the same time impairs the capacity of the people to make use of the boon which it bestows upon them. In countries where the greatest stress is laid on the duty of educating the people at the expense of the State, the greatest obstructions are placed in the way of the circulation of newspapers. Yet, for the great majority of an educated people, newspapers afford the chief and almost the only means of making use of their power of reading. It is of more importance that a considerable number of people should read cheap and good newspapers than that a much larger number should be able to read them but have none worth reading. The interference of a government with newspapers may take one of two forms—it may either impose a tax on them for the sake of procuring a revenue, or it may place restrictions on the expressions of political opinions in their columns. The former of these modes is more likely to be resorted to in proportion as the expenditure of the government increases, and if a system of State education is established, it thus has a direct tendency to stop up one avenue of knowledge while it is opening another. The connection between State education and restrictions on liberty of discussion is, of course, more remote and by no means necessary, but to whatever extent men resign the control of their own affairs into the hands of their government they become less capable of thinking and acting for themselves and of resisting the commands of the government, which becomes proportionally more disposed to be overbearing and tyrannical.

Another function which most governments have, to some extent, undertaken, and which it is commonly held that they are bound to undertake, is that of relieving poverty. Because it is admitted that charity is a duty, it is contended that the poor have a right to relief, and that therefore the State is bound to provide it for them. It is forgotten that charity ceases as soon as it is made compulsory, and that every system of affording relief must tend, more or less, to produce poverty

by encouraging the belief that the effects of improvidence will always be mitigated by assistance from the provident and industrious. This objection applies, no doubt, to private as well as to public charity, but the resources of the former are limited by the benevolence of individuals, while the latter can do more harm because it has a larger fund at its disposal. A comparison has often been drawn between the improvidence of the English and the thrift of the Scotch people, and one cause of the difference may be found in the fact that in England the poor can always count on obtaining relief from the parish rates, while in Scotland they can rarely do so. The demoralising effect of the English system has often been noticed, and its abolition often demanded. Bishop Burnet, early in the last century, pointed to Scotland as an instance of a country much poorer than England which yet contrived to dispense with a poor law ; and, although there can be no doubt that there is much distress in Scotland, it has yet to be shown that there is more than is undergone by the inmates of our workhouses. The difficulty which is in the way of the abandonment of our present system, is, that those who sympathise with suffering cannot endure the thought that a person who is destitute should have no place to turn to where he can be certain of finding help ; and if a poor law really supplied this want, and were the only means of supplying it, it would be impossible to overcome this difficulty. But, in point of fact, the poor law does not prevent occasional deaths from starvation ; and the very people who are most deserving of assistance are those who choose rather to starve than apply to the workhouse. The fact that the workhouse is supported by compulsory charity is enough to make it, in too many cases, all that a charity ought not to be. Whatever is given is grudged, and the neglect and discomfort are such that the condition of the inmates is often worse than it would be if they depended on the kindness of their friends. It is impossible that State charity in a country where much poverty prevails should be as liberal as private charity, for the taxpayers are ever on the look-out against any excess ; but it is equally impossible that any charity should be long carried on without in some measure producing the very evil which it is intended to cure. Our present system of poor-law administration is an attempt to reconcile two conflicting theories represented by in-door and out-door relief respectively. The former is, that the State ought only to provide for the destitute ; and, consistently with this view, in-door relief is refused in all cases where the applicant has any property left. An evil inseparable from such a system is, that it reduces the poor to absolute destitution, and renders it extremely difficult for a person who has once been received into a workhouse to become independent again. In order to mitigate the hardships of this system, out-door relief is given to those who are

able to earn something but not enough to support themselves; but this practice, though it is more palatable to the recipients, and, in many cases, less burdensome to the ratepayers, is, in the long run, more productive of pauperism. At the time when Malthus wrote, it was a common practice for out-door relief to be given to married labourers whose wages were supposed to be insufficient, and for the allowance to be increased after the birth of each child. Malthus pointed out how much this practice tended to pauperise the labourers by encouraging them to marry and bring up families which they had no means of maintaining; and he constantly advocated the gradual restriction and final abolition of the poor law. Although his efforts have not been fully successful they have not been without effect, and the poor law of 1834 was passed with a view of restricting out-door relief within the narrowest possible limits. Unfortunately, the hostility which the innovation provoked, though it has never become strong enough to cause the law to be repealed, has been sufficient to prevent it from being thoroughly put in practice, and out-door relief is still given on a large scale. It is obvious that the practice acts as a discouragement to thrift, for in deciding on applications for outdoor relief, the guardians can hardly help rejecting those of persons whose houses do not show signs of poverty. Thus, the labourers who have laid by money and have struggled hard to keep up a decent appearance, find, when they are in temporary want, that they can get no help from the parish without first parting with all their property, and then entering the workhouse. Those, on the other hand, who have made no provision for the future, can obtain assistance without leaving their homes, and it is not to be supposed that such a system can be long practised without influencing the conduct of the labouring classes. It has been recently proposed by Mr. Bartley, that, instead of thus making improvidence a condition of relief, the poor-law authorities should make providence a test by refusing out-door relief to all who cannot show that they have laid by something for the future, and in giving to those who have in proportion to their savings. But if this plan were followed, there would still remain the objection that the poor would be discouraged from saving beyond a certain amount, and would have an inducement to conceal what they had saved if it would appear too much to make them eligible for parish relief. In some form or other the difficulty is always encountered that parish relief cannot be given without checking the disposition of relations or friends to afford assistance. If out-door relief is given, it is not regarded as being equally disgraceful with in-door relief; and those who would rather provide for their relative themselves than send him to the workhouse, will withhold assistance if

they think that an allowance will be given. In the case of children, on the other hand, their relatives seem to regard the parish school as a fit place of residence for them, and will not come forward unless they hear that the guardians propose to board-out a child in a private family. It cannot be doubted that, if the government made no provision for the poor, they would receive much more assistance from their relatives and friends. Private charity is, no doubt, open to the same objection, and those who have the management of hospitals find it difficult to prevent their abuse when relief is given to out-patients; but as the resources of private charity are much smaller than those of a government, it has less power of doing mischief, and its abuses are more easily rectified. The case against government interference in this matter may be summarised in the statement that it tends to encourage the pauperism which it is intended to remove, that it discourages private charity by making people believe that ample provision has already been made for the poor, and that it cripples the energy of the government by encumbering it with a new task in addition to that which it is always bound to perform.

Another function which many governments undertake to perform, though it never has been contended that it is their duty to do so, is that of conveying letters. The first establishment of regular posts was brought about by the necessity which the rulers of an extensive territory experienced of having some means of transmitting their orders to all parts of their dominions. In order that the work of a government may be carried on efficiently, the central authority most have some means of communicating with its subordinates; and a government does not depart from its duty when it establishes regular communication for its own purposes, nor even when it diminishes the cost of transport by allowing such of its subjects as choose to pay for it to make use of it for their own convenience. But when it has once been found that by allowing its subjects to make use of the public conveyances a revenue may be obtained which will exceed the cost of transport, a temptation which few governments have been able to resist is held out to establish a monopoly in favour of the State. A monopoly having once been established, people become accustomed to having their letters conveyed by the government, and come in time to believe that this is the best and only convenient way of carrying on the business, until it requires some mental effort even to imagine that letters might, like other things, be conveyed by private individuals or associations quite as well as by government officials. As a sample of the manner in which it is commonly taken for granted that governments ought to undertake to convey letters for their subjects, I may cite the following remarks of the late Mr. McCulloch:—"The conveyance of letters by post is one of the few industrial undertakings which

are better managed by government than by individuals. It is necessary to the satisfactory working of the post-office that it should be conducted with the greatest regularity and precision, and that all the departments should be made subservient to each other, and conducted on the same plan. It is plain that such results could not be obtained in any extensive country otherwise than by the agency of government, and the interference of the latter is also required to make arrangements for the safe and speedy conveyance of letters to and through foreign countries."* Such are the arguments which he considered sufficient to justify the present system, but there is not one of them which does not assume the very question in dispute. It is necessary, he says, that the operations of the post-office should be regular, and that all its departments should be conducted on the same plan; but, even admitting this, it only follows that a single organisation would be able to do the work better than a number of competitors—not that the Government ought to step in and prevent competition on the plea that if tried it would not succeed. If the business of conveying letters were thrown open to public competition, it does not follow that many would engage in it. Perhaps one large company would be able to satisfy the public better than many small ones, and the natural effect of competition would then be that one would be left in complete, or nearly complete, possession of the field. If it did the work best, it would not need a monopoly in order to secure a profit, while the possibility of competition would act as a valuable security to the public. If the action of the leading company were defective in any respect or in any part of the country, rival companies might be established to supply the defects, and the mere knowledge that competition was possible would compel the managers of the company to consider the interests of the public as well as those of the shareholders. That private companies and individuals are capable of undertaking this business is shown by the success which they have attained in the analogous businesses of conveying parcels and telegrams. It must be remembered, moreover, that much of the work which is supposed to be done by the post-office is really done by railway companies contracting with the office for a certain price, and they would be quite as willing to do the same work on the same terms for a company. Why the interference of the Government should be necessary to secure the safe and speedy transmission of letters abroad McCulloch does not explain. If post-offices in all countries were managed by private companies, there would be no more difficulty in arranging terms for the transmission of letters from one country to another than there is in the case of

* Taxation and the Funding System, 3rd edition, Part II., chap. vii., p. 319.

ordinary merchandise. Even if other countries entrusted the business to their governments while it was performed in England by a private company, it would still be easy for the latter to enter into conventions which would answer the purpose of postal treaties. Foreign governments and their subjects would be quite as anxious to receive English letters as Englishmen to receive letters from abroad, and, this being so, there could be no difficulty in framing an agreement satisfactory to all parties. Before the English Government bought up the telegraph companies, the latter had no difficulty in making arrangements for the transmission of telegrams to all parts of the world. It is, indeed, more likely that commercial companies in different countries should be able to work in harmony than that a number of independent governments should be brought to a general agreement.

It is not necessary to go further than McCulloch's own account of the post-office, contained in the very chapter of which the above quoted passage is the commencement, to learn how very little ground there is for the belief that the business could not be managed by private enterprise. Thus, he tells us, that—"In 1784, it was usual for the diligences between London and Bath to accomplish the journey in seventeen hours, while the post took forty hours; and on other roads the comparative rate of travelling of the post and stage coaches was in about the same proportion. This difference in point of despatch made a very great number of letters be sent by other conveyances than the mail: the law to the contrary being easily evaded by giving them the form of small parcels." (p. 322.) Thus, the very writer who tells us that the interference of the government is necessary to secure speed, safety, and regularity in the despatch of letters, confesses that at no very remote period private enterprise was able to outstrip the government in these respects, although weighted with the heavy disadvantages of legal penalties and prohibitions. It will be said, of course, that this is an antiquated example, that the defect has now been remedied, that no system can be perfect, &c.; but the point which deserves attention is that the defects in the official system were corrected by private enterprise, and the burden of proof rests on those who contend that private enterprise would not have sufficed to do the whole work if it had been left untrammelled. In order to select examples of gross abuses, it is necessary to go back to those which have been corrected, for these alone will be generally acknowledged as such, while if any fault is found with the present management of a system, the matter is sure to be one on which conflicting opinions are held, and the objection is regarded as of little value. To say that a system is good because no defect can be pointed out which all are agreed to consider such, is to use the same kind

of fallacious argument as is so commonly employed by those who talk against Home Rule. The Irish, it is said, have no grievance to complain of, and if one is pointed out which has been already redressed, it is said that Home Rule is unnecessary, while if one is mentioned from which they still suffer they are told that it is not a grievance at all, and the fact that they consider it one is sufficient reason for denying them the power to govern themselves. For twenty years before the introduction of the uniform system suggested by Sir Rowland Hill, the net revenue of the post-office remained, according to McCulloch, practically stationary, and there can be little doubt that a large number of letters were sent by private conveyances. Had there been no monopoly in favour of the government it would have been both easy and profitable for private adventurers to offer their services to the public at a lower rate, and to compel the government to reduce its terms. The introduction of the penny post is supposed to atone for all the faults which the office may have committed, and to be an unparalleled benefit to the country. But it should be remembered that this important measure, though it produced a great increase in the number of letters posted, was followed by a falling off in the net revenue of the post-office. The deficiency had to be made up in some way, and recourse was had to an income-tax which is now resented as a grievous burden by the very classes who benefited most by the reduction of postage. Had the post-office been managed by a private company, a higher rate would have been resorted to when it was found that the adoption of a low one reduced the dividend, and the public would at most have had to pay for what they got at its true value instead of being exposed to the annoyance which is almost inseparable from the income-tax. The choice was not between retaining the old rates and adopting the present one, for there were a hundred ways in which the old system might have been improved without any sacrifice of revenue; but although the interests of the public are often sacrificed to the supposed necessity of securing a large revenue from the post-office, there was not so much care taken at this important juncture to protect the revenue as would have been taken by a company to secure a high dividend.

How much the public suffer from being compelled to resort to a government department instead of to private capitalists is evinced by the state of the law with regard to the loss of articles in the course of transmission from place to place. When an individual or a company undertakes to carry goods, he or it is bound to carry them safely, and to make good any loss which may occur through the carelessness or dishonesty of those to whose custody they are consigned. But when letters are committed to the post-office, nobody is responsible for their

non-delivery, unless, indeed the actual thief can be detected. It is frequently said that the profits of the post-office are large in proportion to the capital invested in it, and that several independent companies would not make so much out of the business; but if this be true, it should be remembered that the post-office is exempt from the serious responsibility of being obliged to pay for its own failures. In order, as it were, to make a pretence of insuring safety, the regulations of the post-office require that letters containing money or valuable articles should be registered; but registration, instead of being a benefit, is simply a burden to the public. Though a fee is charged for registration, the post-office is not thereby bound to replace the contents of the letter if lost, and the system rather increases the risk by making it known to the post-office officials that the contents of the letter are worth taking. It has been abundantly proved that a registered letter may be opened and robbed of its contents and yet closed up again in such a way as to avoid detection. While the law has often been strained in order to inflict heavy penalties on private firms and companies engaged in the business of transporting goods, this gross defect in the law relating to the post-office has been allowed to remain for two centuries unremedied, and it is thought of more importance to increase the revenue by sheltering a department from the consequences of incompetence than to improve it by making it responsible.

There is another business with which the post-office in some countries concerns itself, though it has nothing akin to the conveyance of letters, that, namely, of receiving money from individuals and undertaking to pay it back again at another time or place. By engaging in this business, it, to some extent, does the work of bankers, and credit is often taken for the benefit which it thus confers on the public. But before the government can be praised for what it thus does for its subjects, it is but fair to ask whether it interferes in any other way to prevent private bankers from doing the work. By the establishment of post-office savings banks, a place is provided for depositing small savings with greater security than private banks can afford; but these, if relieved from various restrictions to which they are now subject, would be entitled to, and would enjoy, more confidence than at present; and the government which promotes security with one hand is diminishing it with the other. Complaints have frequently been made that a license duty is charged on the establishment of branch banks in such a manner as greatly to impede their multiplication, and to whatever extent this is the case, the people are deprived of the means of depositing their savings in a place of security. The restrictions which have been placed on the issue of notes and the amalgamation of banks, and which have been considered in a former

chapter, tend in like manner to prevent the growth of banking, and to prevent private enterprise from doing what the government now undertakes to do. As regards the transmission of money from place to place, the interference of the government is more decidedly injurious. In order that bankers may undertake this business they ought to be allowed to establish branch offices wherever they please, whereas the present license duty greatly hinders them from doing so, while it brings in no corresponding advantage to the revenue. That private enterprise is capable of discharging this function is shown by the fact that it is discharged by the banks in Sweden, and by the success which has attended the operations of the cheque bank. This latter institution, though the extent of its business has not been sufficient to enable it to pay a dividend, has yet succeeded in supplying the public with the means of transmitting money at a cheaper rate than the post-office, and the difference would be very much greater if it were not that stamps were required on cheques. While the money-order system, though worked on a vast scale, shows generally a loss, a moderate extension of the operations of the cheque bank would yield a profit to the shareholders, and at the same time furnish a revenue to the government by means of stamps. There is, therefore, very little reason for the government to take credit to itself for discharging the functions of a banker, when it is at the same time preventing private ndividuals from doing the work much more efficiently.

The English Government has so long enjoyed a monopoly of the conveyance of letters, and has, on the whole, worked it in so satisfactory a manner, that it may naturally be thought that the best maxim to be applied to the case is *quieta non movere*. Even Mr. Spenser, who has given in his "Social Statics" an able summary of the reasons which should prevent government from interfering in this matter, considers that its intervention is less objectionable in this department than in those of religion or education, as it does not necessarily lead to a curtailment of individual liberty or to the imposition of a tax for other purposes than that of protection. In a later work, he says—"I am not about to call in question the general satisfactoriness of our postal arrangements, nor shall I contend that this branch of state-organisation, now well-established, could be replaced with advantage. Probably the type of our social structure has become in this respect so far fixed that a radical change would be injurious." * There are, however, other countries where the post-office is not so well managed, and where the public might gain much more by having the business thrown open to general

* Essays, Scientific, Political, and Speculative, Vol. III., p. 169.

competition. In the United States, for instance, the privilege of franking is so grossly abused as to produce an annual deficit in the post-office budget, and it is certain that this practice would be at once put an end to if a company were allowed to take over the business. All that is needed, in order to prevent the inconvenience which might result from a sudden change of place, is to declare the business open to general competition, and to leave the public to see whether the government or private individuals can do the work cheaper and better. If the government were still able to maintain its ground, there would then be no other objection to its continuing to discharge the function than that it must to some extent impair its power of protecting its subjects by undertaking an additional task.

Early in 1870, the English Government followed the example which had been set by many Continental States, and undertook to convey telegrams for its subjects. This proceeding affords a good example of the way in which one encroachment leads to another. Thus the government has gone beyond its functions in order to convey letters, and we are now asked what reason there can possibly be why it should convey letters which does not equally apply to the case of telegrams. The minister who first proposed the scheme said that he would not ask for a monopoly, in order that the department might be stimulated to adopt new improvements; but when the scheme was finally adopted by the legislature, a monopoly was granted, and has been ever since maintained. It is unfortunate that in a case of this kind there is no class whose interests are bound up with the maintenance of free competition, and who might be trusted to make every effort in their own defence. The only class which was directly interested in the question consisted of the shareholders and officials of the telegraph companies, and the liberal compensation which was awarded to them was quite enough to prevent them from opposing the change. The compensation was indeed too liberal, and while, on the one hand, several of those who are connected with submarine telegraph companies are endeavouring to get the government to buy their cables at an equally extravagant rate, the government, on the other, has been prevented from realising so large a profit as was anticipated. The telegraph-office has, like the post-office, been managed well enough to give general satisfaction, as might have been expected in so business-like a country as this, where the people had already had experience of private competition, and could easily resort to it again if the government failed to do its work. But the expectations which were formed respecting the benefits to be derived from the change have not been realised. Under the present, as under the former system, it often happens that a telegram arrives later than a letter sent off at the same time. Under the present,

as under the former system, the authorities frequently decline to establish offices in country districts where there is not business enough to make them pay. Though the receipts exceed the working expenses, the excess is not enough to make up for the interest on the money borrowed in order to purchase the wires, and instead of the change affording a relief to the taxpayers, they must be paying a constantly increasing amount in order that those who use the telegraph may pay less. Under the old system, though the average charge was higher than at present, it was lower in the case of telegrams sent from one part of a large city to another; and here again there has merely been a shifting of the burden from one class to another. That the management is not so economical as formerly may be inferred from the fact that the working expenses which under the companies amounted to 60 per cent. of the receipts, have risen under the government to 78, 78¾, 89½ and 91½ per cent. It is true that the average charge having been reduced to little more than half of what it was, the cost of each telegram may in reality be about the same as before, but one argument which was used in favour of the change was that unity of management would secure a reduction of expenditure. That those who use telegrams have benefited by the reduction of the charge cannot be doubted, but it is not equally clear that they would not have derived as great, or greater, advantage from the old system if it had been allowed to continue. Competition had often forced the companies to reduce their rates, and if the process had been allowed to continue they would probably by this time have reduced their rate to its present amount, and there would always have been a chance of their reducing it still lower. When the government took over the telegraphs, a hope was held out that the rate would after a time be lowered, but such an improvement seems to be still as far off as ever. Meanwhile, there is the fact that the rate has been raised for messages between different parts of the same town, a step which it is not likely that the companies would ever have resolved upon. Much is said about the advantage conferred upon trade by the reduction in the rate, but as the government has had to bear the expense of establishing a new system, traders are obliged to submit to taxes which take from them in one way what they have gained in another. Although there is no important difference in principle between the case of the submarine telegraph lines and those which are confined to these islands, the former are, for the present, left in private hands, and it is to be hoped will long be so. The chief difference between the two cases is, that while the former can only supply the wants of a limited class, the latter may obtain custom from the general public if the rates are only made low enough. Experience has shown in the case of both letters and telegrams that a reduction of

the charge on those exchanged between foreign countries has no perceptible effect in increasing their number, while within the limits of the same country a reduction is sure to attract a new class of customers. The submarine telegraphs are chiefly used for conveying political news for the information of governments and newspapers, and commercial news for the benefit of merchants, and in both cases those who send the telegrams feel them to be of sufficient importance to justify almost any expense. A reduction of the rate benefits them by reducing their expenditure, but does not make them send more messages than they would otherwise do, but it is different in the case of inland telegrams. It is well known that as soon as the transfer of the telegraphs to the government had been completed, there was an enormous increase in the business, so great, indeed, as to overtax the energies of the department, and to produce complaints of delays and mistakes with which the newspapers were filled for some weeks. Cases are continually occurring in which persons who do not often make use of the telegraph wish to send a message of no great consequence in itself but which must be sent quickly if it is to be of any use, and it is in such cases that a low rate makes its superiority felt ; and these chance customers being an extremely numerous body, it is no wonder that the new system has become extremely popular. Formerly, the receipt of a telegram in a private house was always the occasion of some alarm, but the low rate which has now been in force for some years has familiarised the public with telegrams, and their arrival attracts little more notice than that of a letter. A case has been known in which a lady telegraphed to her maid to send her a copy of the "Times" which she had left behind on leaving home, thus paying for the telegram four times as much as a fresh copy of the newspaper would have cost. No such extension of the business could be hoped for if the charge for foreign telegrams were reduced, and the government could not hope to obtain any great popularity by taking over the submarine cables and establishing a low scale of charges. Those who advocate such a step have therefore nothing to urge except the benefits which it would confer upon trade, and these are of a very questionable character. It may be doubted whether the number of messages would be very much increased if the charge were reduced to a half, or even a third, of its present rate. A high tariff holds out a great encouragement to the practice of packing telegrams (*i.e.*, using such a cypher that many messages may be sent in one), but it does not prevent merchants from sending as many as their business requires. If they are enabled by the establishment of a low tariff to reduce their expenditure in this direction, the public will probably not receive, and would certainly not notice, any benefit from it, as it would only affect a small portion

of the expenditure which each branch of foreign trade renders necessary on the part of those who carry it on. That the shareholders in the telegraph companies should be anxious to transfer their property to the government is not to be wondered at. Not only have they the precedent of the transfer of the inland telegraphs to make them hope that they will receive for their property much more than it is worth, but they would be freed from what is certainly a most harrassing situation. Competition, though extremely useful to the customers, is necessarily harrassing to the producers who are engaged in it, and it is easy to understand the jealousy with which an old-established telegraph company regards every rival. The first company which succeeded in laying a cable across the Atlantic only did so after several failures, and it is no doubt hard for those whose energy and perseverance at length brought the work to completion that they should be exposed to the rivalry of fresh adventurers who have profited by their experience and wish to share the reward without bearing the burden and heat of the day. It is tantalising, no doubt, to find that as soon as one rival has been quieted by amalgamation, a new one starts up, and the cycle of ruinous competition, compromise, and amalgamation has to be run over again. But though these are hardships, they are not greater than must be submitted to in every other branch of trade, and as no one is obliged to embark in this particular business, no one has much right to complain if he does not gain as much as he expected from it. It is often said that there is no real competition because rival companies charge the same rates ; but, as a matter of fact, there has been a great reduction of charges since the first cable was laid, and all that can be expected from competition is that it should cause the charge to the customers to be reduced as low as is consistent with the profits of the producers. If the government were to purchase the cables, it might in the first instance make a great reduction in the charge, but the public would have no security that another reduction would be made at any future time. The government would be as anxious to secure a large revenue as a company would be to pay a large dividend, and it would be sheltered by a monopoly from the necessity of altering its rates in order to ensure custom as well as of adopting improvements in the system of working.

In the same way as it is contended that because the government conveys the letters it ought to convey telegrams, so it is argued that it ought to convey merchandise and persons from place to place, and as railways now afford the principal means of conveyance, the government is recommended to undertake their management. It cannot be contended that in this country private enterprise is incapable of constructing and working railways, for they have been in private hands from the

first, but we are asked to believe that the State could manage them better. Although it is generally found that when a government competes with private traders it is beaten in the race, it is still maintained that railways would be, and are, better managed by governments than by private companies ; and all the shortcomings of the latter are adduced as if they were enough to prove that the proposed new system would be better than the old. Although it is proposed to give a monopoly to the government, the advocates of this course think that they cannot say anything more damaging to the present system than to call it a monopoly. They tell us that there is no real competition between railway companies, because, in point of fact, wherever two lines connect the same towns, the scales of fares are sure to be equal. This naturally happens, but it does not follow that there is no competition, as the companies still compete in the speed and number of their trains, and the fact that there are two lines prevents either from arbitrarily raising its fares. The essence of competition is that the price of the product or service should be kept down to the lowest figure which is consistent with the profit of the capitalist, and there is competition where all the rivals charge the same price just as much as where their prices are different. The cost of production is more liable to variations than the cost of conveyance, and, as a matter of convenience, it is better for a railway company to keep up the same scale of fares for a considerable time, even though it may cause a loss ; but, nevertheless, the public derives some benefit from the actual and possible competition of different companies. When one company has shown itself able to pay a high dividend for several years, its success tempts enterprising persons to start a rival line ; and though, as in the case of the telegraphs, the rivalry may end in amalgamation, there is always a chance of fresh rivals coming forward. Indirectly there may be competition between different railways which do not connect the same places, as, for instance, between those which start in different directions from London. A traveller who wishes to go to the north cannot avail himself of the southern lines, but persons whose business compels them to live near London must take into account the scale of railway fares in choosing their place of residence ; and the competition of the companies for this suburban traffic must establish some sort of equality between their fares. To say that railways are a monopoly is hardly more true than to say that farming or cotton manufacture is a monopoly, for in both cases the business is confined to those who choose to engage in it, and in both cases those already engaged can obtain a certain advantage before fresh rivals have time to enter the field. If the Government were to undertake the management of the railways it would establish a real monopoly, and those who advocate such a course do not explain how it

would be better for the public than the so-called monopoly which now exists. We are, indeed, told that the Government, being under the control of the people, would be obliged to consult the people's convenience, but the experience of the post-office does not show that government officials are less disposed than private companies to charge high rates, or to make vexatious rules. The authority of parliament has sometimes proved sufficient to prevent obnoxious innovations from being persisted in, and even to force the adoption of a new system on reluctant officials, but the greater the revenue derived from the railways, the more unwilling the ministry will be to risk any part of it in novel experiments ; and it is by no means an easy matter for parliament to carry through a change in spite of the opposition of the officials concerned. The more functions the administration is burdened with, the more difficult it becomes for parliament to exercise an effective control, and the greater is the danger that the more important ones will be sacrificed to the less important.

As in the case of the telegraphs, an argument on which great stress is laid by those who advocate the purchase of the railways by the State, is, that unity of management would greatly reduce the cost of working. Mr. Lea, who brought the subject before the House of Commons on May 20th, 1873, referred to the railway clearing-house, where he had been informed more than a thousand clerks were employed, chiefly in calculating what payments were due from different companies to each other. If all the railways belonged to the State, it is obvious that no labour of this kind would be any longer necessary, and the clerks might be employed in some more useful manner. Much waste is now incurred in cases where carriages belonging to one company have been allowed to run over the lines of another, but are not allowed to be used by the latter, but must be returned empty. All this would cease whenever a single proprietor came into possession of all the lines, and there would doubtless be a large saving under the head of law expenses which now represents the cost of quarrels between different companies. On the other hand, it must be remembered that these advantages would follow from amalgamation, whether carried out by the government or by private agreement; and that amalgamation has already made great progress, and is likely to make much more. Many of the large lines now represent the union of more than thirty small ones, and the process has been going on continually in spite of the efforts of the legislature to prevent it. Although there are many objections to this practice, and though the legislature was fully justified in trying to prevent it, it possesses so many advantages, both for railway officials and for the public, that means are sure to be found for continuing it. Only a few years ago a scheme was proposed for amalgamating the southern lines, and if it had been

sanctioned by Parliament, the precedent would have been followed in other cases, and so near an approach would have been made to unity of management that there would have been small reason to recommend State purchase in order to obtain it completely. Too much stress, however, should not be laid on unity of management, for centralisation has its defects as well as its advantages, and the present system intrusts the management of the railways to a number of persons who have a strong interest in doing their work well, while the proposed change would hand it over to a body of officials who would have a vast system to control, and would have no strong motive to do their best. Although all would be under one management, yet, as the managers would not have the same interest in securing economy, there would be as much waste from carelessness as there now is from misdirected zeal.

The cost of management of the telegraphs is actually greater now that they are in the hands of a public office than it was when they were owned by several companies.* In all discussions of this subject, great stress is laid on the frequency of railway accidents and the difficulty experienced by the Board of Trade in enforcing the adoption of proper precautions. Mr. R. B. Martin, for instance, who advocates the purchase of the railways by the State,† cites several passages from the reports made to the Board after various accidents, in which, of course, each particular accident is ascribed to some neglect on the part of the company, and he seems to suppose that these are enough to show that some more efficient control is required. But, without impugning the ability of the officials who make these reports, it may still be doubted whether their evidence is sufficient to establish a general charge of carelessness against railway officials. When one of them is sent down to report on the cause of a particular accident it is his duty to give his opinion, and he may be quite correct in assigning a particular cause for it. But in matters of this sort there is room for differences of opinion among persons equally competent to judge, and railway officials cannot be blamed for acting on the advice of their own engineers, though it may be contrary to that of those who are consulted by the Board of Trade. The opinions of the latter carry more weight with the public, perhaps because they are only made known after an accident when it is certain that some mistake has been made, and railway directors say that they find it useless to make any reply to official censures. But it would be unreasonable to suppose that great care is not taken, because each accident shows that somebody has not done his duty. Whatever system

* See Mr. Jevons' Article on Post Office Telegraph, "Fortnightly Review," December, 1875.

† Journal of Statistical Society, 1873.

were adopted it would still have to be worked by human beings, and nothing can be more unreasonable than to suppose that because one system has failed through human fallibility, another system would be certain to succeed. Unpunctuality is commonly denounced as the most prolific cause of accidents, and it is urged that severe penalties on the former would afford the best means of preventing the latter. It is quite right that railway companies should be made responsible for any loss which passengers incur through unpunctuality, for they have contracted to convey people to a given place at a given time, and the State should enforce the fulfilment of this as of other contracts. If it were made a simple and easy matter to sue companies for compensation for any loss occasioned by unpunctuality the practice would no doubt be checked and the convenience of the public greatly promoted. But if severe penalties were imposed, the public would probably find that they lost more than they gained by greater punctuality, for the consequence would be that the companies would be obliged to allow the maximum instead of the average time for the journey, and the great advantage of speed would be sacrificed for the sake of regularity, which, after all, could not always be secured. The slower trains of Continental railways do not always keep their times as it is often erroneously supposed that they do, and it is remarkable that those who advocate State control for the sake of safety do not enter into a comparison between the private railways of England and the State railways of Germany. Experience does not teach us that the control which the government exercises over the navy is enough to prevent loss of life. The loss of the "Captain" in 1870, the most serious disaster which has befallen the English navy for several years, was directly brought about by that very deference to public opinion which is spoken of as such a great advantage in the management of government business. The ship was built on what turned out to be an unsound plan, in spite of the opposition of the official whose business it was to decide on the merits of different systems of construction, and in order to satisfy outside critics. The indifference of railway companies to new inventions and hostile criticisms is often made a subject for jests and complaints, but it is better than the weakness which adopts unsafe plans merely in order to quiet troublesome complaints. If the English Government were to undertake the management of the railways, it would most probably claim the same irresponsibility which has hitherto been conceded in the case of the post-office and the telegraphs; and there would then be even less inducement than at present to railway officials to do their work punctually and well. Under the present system, a railway accident affects the dividend of a particular company, but it does no harm to the country at large; but if

all the railways belonged to the State, the revenue would be affected by every serious accident, and the government would be sure to come in for some share of unpopularity. Already there is mischief enough due to a necessity of maintaining public dockyards for the use of the navy. At the last two general elections the dockyard towns returned members opposed to the government of the day, and throughout the country successive ministries have been denounced and have certainly lost votes on account of simply performing their duty in reducing the cost of the dockyards. With so large a system as that of the railways of the United Kingdom difficulties and disputes are sure to arise, and whenever the ministry decide against the wishes of a small section they are sure to lose more by offending an interested minority than they gain by attending to the welfare of an indifferent majority. Mr. Lea thinks this a matter of no importance, and that the government is better able to deal with questions of work and wages than the companies. When treating of this subject in his speech in the House of Commons, he says:—"Then my honourable friend, the member for Rochester, referred to the difficulties of controlling the operatives, and talked of gigantic unions and strikes. I say we have as much, and more, fear of that at the present time. And who is there so proper to deal with that as the government, who would be compelled to see that justice was done to the employés as well as the public, and who would have the power of controlling such organisation as might exist. But what are the facts of the case? We have had strikes amongst engine-drivers and porters, but when have we ever had a strike amongst dockyard men or any other government servants?" * If we have not yet heard of a strike amongst dock labourers, we have had one among telegraph clerks, and another among the Metropolitan Police. The latter was called a mutiny, and punished as such; but a mere change of name cannot alter the fact, nor prove that the government can manage its dealings with its employés better than a private company can. We have had something like a strike among post-office sorters, and the greater the number of functions which the government undertakes, the greater is the risk of incurring odium through acts which would pass unnoticed if done by private individuals. The whole community is injured when a ministry whose general policy satisfies the country is forced to resign by a clamour raised against acts for which the ministers are nominally responsible but of which they can know but little and cannot avoid sanctioning without a gross breach of duty. If every railway accident is to be made an excuse for attacking the ministry in the same way as a naval disaster now

* "Purchase of the Railways by the State," p. 25.

is, it is plain that much of the time, both of the ministers and of Parliament, will be wasted in futile discussions, to the exclusion of really important matters concerning the defence of the country, and the administration of justice.

The question assumes a different aspect in different countries, and there may be special reasons why the government of one country should undertake the management of railways which do not apply to others. The policy of the Indian Government in guaranteeing a certain profit to railway companies is defended on the ground of military necessity; and, if it be true that the construction of a system of railways makes it easier to suppress an insurrection, it can hardly be said that the Government is exceeding its functions in adopting this policy. But it may be doubted whether Indian railways afford much assistance to trade, and, as they are, with two or three exceptions, a source of expense to the Government, traders and the community at large must lose as much by paying higher taxes as they gain by cheap transport. In Australia, where it is a common practice for the State to construct and manage railways, the people are made the victims of an amount of jobbery which, if not greater than what prevails in England, is more injurious to the whole community. Mr. Trollope has given us an instance of the way in which public money is squandered in New Zealand. A proposal was made for a railway in the Southern province, three hundred miles long, but the Northern members of Parliament refused to support it unless their province received a railway also. When they were told that the population of their province was only one-tenth of that of the Southern, they still insisted that they ought to have a railway of proportionate length, and a line was accordingly built, thirty miles long. It is practically useless, for the merchandise which might supply it has to be brought from a great distance by horses or bullocks, and it is not worth while to transfer it to the railway when the journey is nearly done. Mr. Trollope visited it, and on asking whether it paid its expenses, was told that it did not even pay for the grease used on the carriage-wheels. There are many branch lines in England the working expenses of which exceed the receipts, but these are generally constructed at the expense of individuals who live in the neighbourhood and gain in convenience what they lose in money, and, at all events, whoever loses has entered into the risk of his own accord. One consequence which would follow from the absorption of the railways by the State, should such a course ever be resolved on in this country, may be thought worth pointing out. It would be necessary to compensate all the holders of shares and debentures, and the simplest way of doing so would be to create a large amount of consols or some similar stock. The present value of the railways is computed

at fifteen milliards, and as the interest on this enormous sum would have to be paid by the Bank of England instead of by private and joint-stock banks as is now done, the latter would be at once deprived of a great part of their business. The private banks, which even at present are losing ground, would probably suffer so much from the change that many of them would be wound-up or amalgamated, and a further stimulus would be given to the movement which is now bringing banking into the hands of joint-stock companies.

The object of the preceding remarks has been to show cause why the government should not undertake certain functions which have often been assigned to it. It must not be thought, however, that because State interference in these matters is injurious it is therefore possible to dispense with government altogether. On the contrary, the more the action of government is restricted to the single task of protecting its subjects, the more benefit will they derive from it and the more thoroughly will its work be done. In order that every subject may really obtain protection from the government, it is necessary that the latter should either have the power of obtaining labour gratis, or should be furnished with the means of hiring as many servants as it requires. Both these courses are adopted by different governments, but the latter is resorted to more and more frequently as civilization advances. In one respect, indeed, modern nations are now returning to the ancient practice, and instead of hiring volunteers to perform military service, are now compelling all able-bodied citizens to undergo a military training and to serve in the field when required. In England, where this innovation has not yet been adopted, it naturally meets with little favour, and is denounced as a great interference with liberty. But whatever objection may be justly made to the practice of universal conscription, it cannot be maintained that a government which enforces it is exceeding its proper functions. In order that a government may protect its citizens it must be able to protect itself, and it may fairly call upon them to make whatever sacrifices are necessary to defend it against attack whether from within or from without. As far as liberty is concerned, it is just as much infringed by taxing a subject in order to pay for the support of a standing army as it is by exacting military service from him. In both cases the government may reasonably say to the citizen who would refuse the demand, that if he will not protect the State, the State will not protect him, and they offer him the choice between submission and outlawry. Recent experience has shown that a State which has adopted universal conscription is more than a match for any State of equal size which has not adopted it, and, this being so, it is almost inevitable that when one country has set the example all its neighbours

should follow it. At all events, whatever may be thought of the question as one of expediency there is nothing unjust or tyrannical in taking such a course. In countries where military service is optional, there are many duties which citizens are required to perform without receiving any payment, such as serving on juries and acting as magistrates, and English law even requires all citizens to aid the police in seizing offenders on penalty of being themselves imprisoned if they refuse to do so. But although many services may thus be rendered, as it were, in kind, it is impossible that all the work of the government should be done by unpaid officials. The duties of many offices are such that those who hold them must give up their whole time to their performance and cannot labour to support themselves; and it is therefore necessary that the rest of the community should support them. Soldiers who are to serve in a short campaign may be compelled to do so at their own expense, but when conscripts are kept in barracks for three years the State must make itself answerable for the expense of feeding and clothing them. It would be difficult, if not impossible, to provide military stores and other articles required by the government by simply ordering the manufacturers to make as much as was wanted and to supply it without charge. To exact such large quantities from a particular class merely because it happened to possess the necessary skill for producing the articles in question, would be to impose a very heavy and unfair burden, and if such a policy were persisted in it would defeat its own end by ruining the manufacturers who were the victims of it. As, therefore, it is necessary that the government should, in some way or other, be provided with a revenue, it remains to be considered what are the most convenient methods of providing it. This question depends in some measure on the functions which a government is expected to perform. When it undertakes to convey letters for its subjects it can make them pay for the service by simply fixing a charge for conveyance and refusing to take letters which are not paid for. When it undertakes to provide its subjects with education it can pay itself by compelling all parents who make use of its schools to pay such fees as will reimburse the expenditure incurred in constructing and maintaining them. In such cases there is no need of a theory of taxation, for the consumers are simply left to provide as they can the means of paying for a particular service. It has been suggested, and Adam Smith has countenanced the suggestion, that the cost of administering justice might be provided for in the same way by charging fees to the suitors. It is perfectly true, as Adam Smith says, that the fees of the judges and other officials of the law courts, form but a small part of the expenses of a law-suit, and that the much greater part which is absorbed by legal

advisers and advocates is usually borne by the suitors themselves. But there is a great difference between the position of those who apply to a court for justice and those who wish to consume a commodity, or to obtain any ordinary service. As a rule, it is right that those who require to obtain either the one or the other should pay for it, as they are the persons benefited by it; but a person who applies for redress to a law-court is not the one who derives most benefit from the protection of the government but the one who has been least protected, since he has suffered an injury from which the government was bound to defend him. To make those who have been injured bear the expense of redressing their own wrongs is to aggravate instead of relieving their distress, and to throw the burden upon those who are least able to bear it. It is much as if an insurance company should refuse to replace a house that has been burnt down unless the insurer will pay them over again for doing what they have bound themselves to perform. It is singular that sixty years after Bentham's vigorous protest against law taxes, the practice should still be retained of compelling litigants to pay fees on applying to our law courts for redress of grievances. It may be thought that as the defeated party is ordered to pay the costs, the party who is in the right suffers no loss; but, in fact, there are many cases in which the loser is unable to pay and the winner is held responsible, while there are many which are compromised and each side has to pay its own costs, and there must be many more in which persons are deterred from going on with a suit by the amount of the preliminary expenses which must be undergone before the case is decided. Instead of throwing on the suitors the whole expense of maintaining the law courts the government ought to relieve them from the very heavy burden to which they are now subjected by being made to pay the fees of their solicitors and counsel. The government cannot be said to protect its subjects when it only affords redress to those who are able and willing, after having suffered an injury, to incur a heavy expense for the sake of redressing it. In some cases, indeed, as in those of murder, theft, and a few other offences which are regarded as more particularly dangerous to society, the government does undertake to pay the expenses of the prosecution; but, even here, the scale of payment is often too low to secure that the work should be efficiently done, and in those numerous and expensive cases which occupy most of the time of the superior courts the suitors have to bear the whole of the expense. The question is not free from difficulty, for if the government has to pay it will naturally fix a moderate scale of payment, while the suitors, if conducting their own case, can obtain the ablest counse by offering high fees, and many would probably prefer to run

such a risk for the hope of winning the case. But whatever practical difficulties there may be in the way, some means ought to be found of overcoming them and of rendering legal protection something more than the mere name which it must be when it is denied to all except those who are rich enough to disregard expense. In the case of protection by force of arms against foreign aggression it would be impossible for the government to charge for the service whenever and in proportion as it is furnished to its subjects, for, in order that such protection may be of any use, an army must be maintained in time of peace, and when war comes the inhabitants of the invaded districts are quite unable to bear the expense of protecting themselves, and it must be borne by the rest of the country. A revenue, therefore, must be provided in some way, and the position of a government is so different from that of private individuals that it must resort to peculiar methods in order to obtain it. A private trader has only to fix a certain charge for the service which he renders to his customers, and can leave them to provide the money as best they can. A charitable society can leave its subscribers to decide how much they will give and the time and manner of giving it. But neither of these courses is open to a government, which must support itself at all hazards, and can neither allow its subjects to dispense with its services when they please, nor place itself in the precarious condition of all bodies which depend on voluntary benevolence. In the heat of a civil war, very large contributions have often been made by partisans of their own free will ; but, even in such cases, private generosity has always proved unequal to the burden of supporting the war, and the party which depends upon it is sure to yield to that which can rely on methodical taxation. As it is necessary to resort to taxation of some kind, the question of the best method or methods of doing so is of great importance, and will be considered in the two following chapters.

CHAP. II.—DIRECT TAXATION.

PRINCIPLES OF TAXATION—LEGACY DUTIES—INCOME TAX—TAXES ON HOUSES—TAXES ON LUXURIES—LICENSE DUTIES—TAXES ON COMMERCIAL TRANSACTIONS.

THE object to be kept in view in all systems of taxation is that of taking nothing from the taxpayers beyond what is absolutely necessary to support the government, and avoiding all interference with the industry of the country and with the ways in which people would spend their money if they were untaxed. An ideal tax would produce no more inconvenience to those who had to pay it than a payment of equal amount for any service which they wished to obtain. It is scarcely possible that any tax should attain this perfection, much less that a large revenue should be derived from a number of taxes all perfect in this respect, and all that can be hoped for, is, that the least objectionable taxes should be retained, and that the whole system of taxation should be so planned as not to inflict any heavy burden on the people without absolute necessity. But, in order to attain even this, it is well to bear in mind the characteristics of a perfect tax, in order that any tax which is established or proposed may be tried by certain fixed canons, and its merits or defects at once perceived. Adam Smith has laid down four fundamental maxims respecting taxation which are admirably fitted to serve for a test of this kind. First, a tax should press upon every citizen in proportion to his ability to pay. Second, there should be no uncertainty as to the amount which each person may be called on to contribute. Third, it should be levied at the time, and in the manner most convenient to the contributors; and, lastly, it should take as little as possible out of the pockets of the people beyond what it brings into the Treasury. Even the first of these rules is very difficult, or rather impossible, to apply, and it is not easy to give any completely satisfactory explanation of its meaning. In what sense is it true that two persons who have equal incomes are equally able to bear taxes? And, if a distinction is to be made between life annuities and incomes derived from land or investments, how is the value of each class of incomes to be calculated? What, again, is to be done in order to establish an equality between large and small incomes in the matter of taxation? It is often contended that a labourer who pays a tax of 10 per cent. on his wages makes a greater sacrifice than a millionaire who pays an equal proportion

of his income, and if this be admitted, what steps can be taken to remedy the inequality? Bentham's suggestion that the State should fix a certain sum as being necessary to support life, and should merely tax the excess of a person's income beyond this amount is a good one, and has been very properly acted on in the assessment of our present income-tax, but it is nothing more than a rough guess, and our application of it deals with only one tax, while those who are relieved by it are required to pay taxes on some of the principal articles of their consumption.

But, however difficult it may be to establish perfect equality, it is necessary to keep the object steadily in view, and to levy taxes on such a principle that the wealthy shall pay more than those of moderate means; and these, again, more than the poor. To say that it is unequal, is not in itself enough to condemn any tax, provided that those who are favoured in its imposition are compelled in their turn to contribute to some other tax which presses more lightly on those who are heavily burdened by the first. The duties now charged on tea and tobacco press more hardly on the labouring classes than on the rich, but these in their turn are subjected to an income-tax and other imposts from which the labouring classes are exempted; and none of these taxes can be condemned as unfair unless it can be shown that the whole burden of taxation presses more heavily upon one class than upon another. Some persons are of opinion that the poor should be altogether exempted from taxation, while others maintain that the rich ought to be made to contribute in a higher and higher proportion as their wealth increases. As, however, the poor are certainly benefited by the protection which the government affords them, there is no more reason why they should be excused from paying for it than for the articles which they consume. In that imaginary state of things in which the labourers earn no more than is absolutely necessary to support them, it would, of course, be impossible to tax them, because whatever was taken from them would be replaced at the expense of other classes who would really pay the tax; but even in such a case, taxing the labourers would simply be futile, not oppressive, or unjust. The proposal of a graduated tax to increase in proportion to a person's wealth indicates a desire to use government as a machinery for redressing the inequalities of wealth, and cannot be countenanced by anyone who regards a government as an association for protecting its members in the enjoyment of as much liberty as can be granted to each without interfering with that of the rest. The second of Adam Smith's maxims is one which is so uniformly acted on in this country that its expediency hardly needs to be pointed out. But in other ages, and other countries, it has been so shamefully neglected that the taxpayers have suffered more from the arbitrary manner in which the taxes were levied

than they would have done if twice as much had been taken from them on a more regular system. This was particularly the case in France before the revolution, and is still the case in Oriental countries. The occasion of the insurrection in Herzogovina in 1875 was the oppression exercised by those who had farmed the tithes of certain districts, and who strove to extort from the peasantry more than the latter had been led to suppose that they would have to pay. And even in British India it is found that the imposition of an income-tax leads to much capricious tyranny on the part of the subordinate officials who are employed to assess it. The third rule is one which should always be kept in view in regulating the times at which particular taxes shall be paid. Those which are to be paid by farmers or landowners should be levied at the same time as rents are usually paid, and an income-tax on possessors of stocks or shares should he levied at the time when the dividends are paid. It is one of the chief merits of customs duties that the consumers upon whom the tax ultimately falls pay it by instalments at the time when they purchase the articles, so that they hardly know that they are paying it at all. The fourth rule is apt to be violated whenever the system of farming taxes is put into operation, for the carelessness with which government business is too often managed prevents the contracts from being properly revised, and the people are compelled to go on paying constantly increasing taxes while the revenue received by the government remains the same as before. At the Accession of Henry IV. of France, the net revenue received by the government was not so much as one-sixth of the taxes paid by the people. Almost the only instance in which a tax is farmed in this country is that of the turnpike-rates, but it does not appear that any hardship is inflicted on those who use the highways, as sufficient care is exercised in making and renewing the farming contracts.

Taxes are commonly divided into two classes, according as they are imposed directly on the persons whom the government intends shall pay it or on persons who are expected to be able to throw the burden on to the shoulders of others. To the former class the name of "direct," and to the latter that of "indirect" is generally given. Mr. Lowe, on one occasion, spoke in the House of Commons of a third class, which he called neutral, but he probably referred to the charges made by the post-office, and the rent of the Crown lands, which cannot be considered as taxes at all. The former are a payment for work done, and the latter are the result of a competition among tenants for the privilege of using superior land, and both would have to be paid if the government did not exist. Each class has its peculiar merits and defects, and naturally each has its partisans and opponents, but there are probably no governments

which have fully committed themselves to the adoption of one system and total exclusion of the other. Direct taxation is recommended on the ground that the contributors are made to feel how much they are paying; and therefore induced to keep a vigilant control over the conduct of their government and prevent it from incurring useless expenditure. Indirect taxation, on the other hand, is recommended on exactly the opposite ground, that it enables the government to procure a sufficient revenue without obtruding on the people the fact that they are taxed in order to provide it. In a country where a large part of the public expenditure consists of the interest of the national debt, there might be some reason to fear that if the whole revenue were raised by direct taxation the people would refuse to submit to the burden and would prefer to face the disgrace of repudiation. Indirect taxes are certainly more popular, and statesmen who see the necessity of certain expenditure are naturally inclined to propose a scheme of taxation which will be cheerfully submitted to. The chief objection, however, to indirect taxes is, that it is more difficult to calculate their effects, and that they are more apt to interfere with the natural course of industry and trade. The general and special objections of this kind will be more fully considered in the next chapter, while the present will be devoted to the examination of particular classes of direct taxes.

When it is desired to tax individuals in proportion to their wealth, the attempt may be made by an assessment on their incomes, or by one on the principal of the property from which their incomes are derived. A convenient mode of effecting the latter is to tax property whenever it passes from the dead to the living. In almost all cases where the property is at all considerable some intervention of authority is needed to secure that it should be handed over to those who are by law entitled to receive it, and the government can easily take this opportunity of ascertaining its amount and deducting a certain portion from it. In most cases, the time when a person succeeds to property is the most convenient time at which he can pay taxes; and, provided these are not excessive, taxes of this sort are paid with less hardship and complaint than any other of whose payment the contributor is fully conscious. In spite, however, of the obvious advantages which distinguish these taxes, an objection has been made to them, which, as it is founded on economic reasoning and supported by the authority of Ricardo, requires to be noticed. "It should be the policy of governments," he says, "never to levy such taxes as will inevitably fall on capital, since, by so doing, they impair the funds for the maintenance of labour, and thereby diminish the future production of the country. In England this policy has been neglected in taxing the probates of wills in the legacy duty, and in

all taxes affecting the transference of property from the dead to the living. If a legacy of £1,000 be subject to a tax of £100, the legatee considers his legacy as only £900, and feels no particular motive to save the £100 duty from his expenditure, and thus the capital of the country is diminished; but if he had really received £1,000 and had been required to pay £100 as a tax on income, on wine, on horses, or on servants, he would probably have diminished, or rather not increased, his expenditure by that sum, and the capital of the country would have been unimpaired." (chap. viii.) It is, no doubt, important that taxation should not be levied in such a way as to diminish the capital of the country and to dry up the sources from which future taxation must be supplied, but it is easy to see, and Ricardo saw plainly enough, that the result depends much more on the amount of taxation than on the particular manner in which it is levied. An income-tax may, as he says, be so heavy that those who have to pay it will rather deduct something from their principal than forego some part of their usual expenditure, and a tax on the value of property may be so light that its owners can afford to pay it out of income. There are many considerations which indicate that a reasonable legacy-tax can have no such effect as Ricardo ascribes to it. In the first place, in those numerous cases where property passes to children who have been living with their parents, they have been practically enjoying the use of it although they were not the legal owners; and if the tax really took away any considerable part of the property they would have every inducement to make up for it by greater economy. In the second place, the capital of a country depends very little for its maintenance on the efforts of persons who are content to live up to their income without trying to increase it by fresh savings. Those who really increase the wealth of a country are the industrious persons who live within their incomes, and make steady, continuous efforts to increase them by well-directed labour. A legacy tax in no way discourages them from doing so, but in so far as it has any effect upon them it urges them to greater efforts. Probate and legacy duties have continued to be charged ever since the time when Ricardo wrote, but no one will say that the English people have contracted thriftless habits, or that the wealth of the country has not largely increased. If, instead of fixing our attention on money, we turn to the land where the food of the people is actually produced, we see at once how little reason there is to fear that its production will be seriously checked by such taxes. The mere fact that these have to be paid whenever a farmer dies, cannot make farmers, as a class, indifferent to the advantages of rendering their lands as productive as possible, of doing their best to obtain access to good markets, or of laying by a sufficient

provision for their families. So long as they do these things they will increase the capacity of the country to maintain labourers, and these, in turn, will find productive occupations for themselves, and the wealth of the country will be increased. It is only when a tax of this kind is arbitrary and excessive, when, as in some Mahometan countries, the sovereign confiscates the whole property of deceased officials, that it can be expected to have much effect in discouraging thrift. If those who accumulate riches know that their families will, after their death, have no share in what they leave behind, they are obviously tempted either to spend as much as possible during their lives, or to store their wealth in some such form as gold or jewels in order to elude the rapacity of the government. Industrious people may be driven to leave the country where such a system prevails, and fly to one where taxes are levied on a more rational system. Thus, legacy duties may have the effect of diminishing the capital of a country, but it is only when levied in an arbitrary manner; and any tax so levied would have the same effect.

Although these taxes are unexceptionable in principle, the mode in which they are now levied in this country is open to various objections. They ought to be imposed in proportion to the value of the estates subject to them, and to be collected in such a way as to be as little as possible inconvenient to those who have to pay them, but they do not comply with either of these conditions. They consist of three classes, probate, succession, and legacy duties, none of which are altogether free from objections on the score of inequality. The probate duty, which is charged on estates before the executors or administrators are allowed to take possession of the property, is not fairly imposed in proportion to the estates subject to it. Surprise has often been expressed at the fact that a higher duty is charged on the property of an intestate than on that of a person who has left a will. It is suggested that if the law is to favour one class at the expense of the other, it ought to prefer those who have been content to let their property be divided as the law directs to those who have thought it necessary to devise a scheme of their own. But in defence of the distinction it is pointed out that the property of an intestate is divided among relatives, and, in most cases, among near relatives, while there is always a chance that a will may contain legacies to distant relatives or strangers in blood. The rates of duty charged on legacies vary with the degree of relationship, ranging from nil in the case of husbands and wives up to 10 per cent. in the case of strangers, and as there is always a probability that the government will receive more in this way where the deceased has left a will, there is some reason for charging a higher probate duty in cases of intestacy. This is, however, but a clumsy way of adjusting the burden, and a more

simple one ought to be adopted. A more serious fault is the inequality with which the tax presses on large and small estates. An estate of the value of 25,000 francs pays a duty of 750 francs, and an estate of 250,000 francs ought therefore to pay 7,500 francs, but, in fact, only pays 5,000 francs, while an estate of 25,000,000 francs pays only 375,000 francs instead of 750,000 francs as it ought to do. Thus the moderate fortune pays only two-thirds, and the vast fortune pays only one-half of what would be charged if a just proportion were observed. A wealthy man is obviously quite able to make as great a sacrifice in proportion to his wealth as one of moderate means, and the injustice which is committed by relieving him from the necessity of doing so is not remedied in any other way, for there is no tax which presses with peculiar force on the owners of large personal estates.

The distinction between the rates charged on legacies, according as the property is real or personal, affords another instance of an inequality established for the benefit of the classes whose influence is paramount in the legislature. Nominally, the rates are the same in both cases, but there is this important difference, that, whereas in the case of personal property they are charged on its full value, they are, in the case of land, charged only on its value calculated on the assumption that the person who succeeds to it is only a life-tenant. Where this assumption is in accordance with the facts, the practice is reasonable, though even in such cases the property will generally descend to the life-tenant's children, and he is not in the position of an annuitant; but when the successor is a tenant in fee-simple, who can dispose of the estate in any way he pleases, there is no reason why he should be treated with more favour than a man who has an equal fortune invested in the funds or other stocks. Those who succeed to landed estates are allowed a longer time for paying the duty than is the case with those who inherit funded property; and there is some reason for this, as it is notorious that rents are less regularly paid than dividends, and it is but fair that landlords should have time enough allowed them to provide the means of paying the tax. There is, no doubt, a stronger feeling against selling a portion of a landed estate than exists in the case of such uninteresting property as the public funds; and there is something to be said against imposing a tax which would make it necessary for landlords to diminish their estates immediately on succeeding to them. But the resource of borrowing is always open to those who are called on to pay a large sum, but do not wish to sell any part of their estates, and there is no reason why the possessors of landed property should be subjected to a lower tax unless it can be shown that land is subject to heavier burdens of some other kind.

The differences in the rate of duty according to the degree of relationship are not altogether free from objection. That husbands and wives should pay no duty is reasonable enough, for they are always regarded by the law as one person, and the transfer is not an increase of the wealth of the survivor, and, in the case of widows, is generally accompanied by a pecuniary loss. That children should pay the lowest rate is also reasonable, but there is no apparent necessity for making any further distinction between near and distant relatives, or between these and strangers. In most cases, a person is equally well able to pay a legacy-duty whether he succeeds to a brother, a cousin, or a stranger in blood; yet the rates in these cases range from 3 to 10 per cent. While the lowest of these is so low as needlessly to forfeit a considerable amount of revenue, the highest is so heavy as to be regarded as a real burden, and it might be an improvement if an uniform rate of five per cent. were charged on all property which did not pass in a direct line. Care must always be taken in fixing these rates to avoid making them so high as to encourage the practice of transferring *inter vivos*, which already prevails to some extent. But when kept within reasonable limits these duties are among the least objectionable of all taxes. The mode of their collection is not, however, as convenient as could be desired. The probate duty is required to be paid before the executor can obtain possession of the property, and, in many cases, the executor cannot advance the money until he has obtained possession. The difficulty is got over by the intervention of solicitors, who undertake to furnish the money and get the will proved; but when this is done it is necessary to pay interest on the money thus advanced, and various fees to the solicitors, and thus the expense is increased to much more than the actual amount received by the government. The probate duty is always charged in round sums, only roughly proportioned to the amount of the property, and there is little difficulty in calculating how much ought to be paid, but the legacy duties are calculated in exact proportion to the legacies, and a great deal of troublesome calculation has to be gone through. It might be naturally expected that when the value of the estate has been assessed for the probate duty the legacy duties would be based on the same valuation; but as the two are paid at different times, it frequently happens that the value of the estate has altered in the interval, and, at all events, the property has to be revalued, which is generally a troublesome process. If any mistake is made, it is differently regarded, according as it is in favour of, or against, the government. If the executor has paid too much, he must claim a return of the excess within six months, and will receive it without interest; but if he has paid too little, he may be called on to make up the difference after any lapse of time,

and will have to pay interest on it. It is much to be desired that something should be done to lessen the trouble and annoyance to which executors are exposed, and thus to diminish the unpopularity of taxes which, if properly levied, are almost the best that can be devised.

Another mode of taxation which would be admirable, if it could be properly carried out, is to tax people in proportion to their incomes. The income which a person enjoys affords a tolerable index of his power of bearing taxation, and if there were no practical difficulties in the way, an income-tax would be about the best resource on which a government could rely. But, unfortunately, the value of an income varies considerably according to the source from which it is derived, and a tax which should treat all incomes alike would not impose equal burdens on all contributors. Adam Smith's first rule is, that all citizens should contribute in proportion to their respective abilities, and a person who is dependent for his maintenance on a salary or professional fees is not so well able to pay taxes as a possessor of an equal income derived from funded property. The important difference between them is, that the former is obliged to save in order to provide for his family after his death, while the latter, knowing that his family will possess as large a fund as himself, is able to live fully up to his income. It is said that, on the average, professional men lay by one-third of their income; and if this be so, a tax which treats all incomes alike imposes on the professional classes a burden heavier by one-half than that to which other classes are subjected. If an attempt were made to remedy this inequality by charging a lower rate on professional incomes, so many questions of degree would arise that it would be found impossible to arrive at any satisfactory settlement. A person who is in receipt of a salary from the government is obliged to save for the benefit of his family, but his income is not so precarious as that of a barrister or a physician, and he has a pension to look forward to when he becomes incapable of working. It would not be fair to treat both these classes alike, and yet if any difference were made between them it would be a difficult matter to assess them fairly. A simple expedient, which has been adopted for relieving the pressure on the possessors of life-incomes, is to exempt from taxation the amount which is actually paid in premiums on life insurance policies, and as far as this goes it does remedy the inequalities of the tax. But, unfortunately, this affords no relief to those who save, but invest their savings in other ways than insuring their lives, and there is no reason why the government should show any peculiar favour to those who choose this particular mode of providing for their families. A more serious objection than that of the difficulty of assessing the tax fairly on all incomes which are known is the difficulty

of finding out what is the real amount of a tax-payer's income. If everyone could be trusted to say what was the amount of his income, and how much he saved every year, there could be no difficulty in assessing the tax, but this is precisely what the average taxpayer cannot be trusted to do. The tax consequently falls with peculiar hardness on those whose incomes are derived from such sources that it is difficult for them to conceal the amount, while those who have the means of concealment are able to evade their share of the burden. This is particularly the case with those who are included in the much talked of Schedule D —that is to say, the commercial and manufacturing classes—and the amount of evasion which is practised by them constitutes the strongest argument for repealing the tax. It would not be sufficient to exempt all the incomes included in that schedule, for this would make the tax unequal in the extreme, and several more exemptions might fairly be claimed if this were granted. The fundholders are mulcted of a small per centage of their dividends in order that they may pay their share of this tax, but it would be a breach of public faith if this were done at the same time that the rich tradesmen and manufacturers of the country were exempted. Government officials in the same way may be fairly called on to contribute out of their salaries to a general tax, but not to one from which a large class is exempted. If these in their turn were exempted, there would remain no one to pay the tax except those whose incomes were derived from land, from investments in other than public funds, and from unofficial salaries; and the two latter of these classes are certainly no better able to pay than those who would under such a system be exempted. The proposal which still finds a few advocates to impose all taxation on realised property is one which is so scandalously unfair that no nation could ever be induced to submit to it. It would be, in effect, to exempt all those who were engaged in making fortunes, and to derive the whole revenue from those who were living on what had been saved by themselves or others. It would be to exempt those who had the best means of compensating by increased efforts the loss which the government inflicted on them, and to exact a heavy contribution from those who were, for the most part, unable to work for themselves, and would have no means of meeting the tax except by increased economy. Even as it is, the mode in which the income-tax is collected inflicts much inconvenience on the holders of incomes derived from stocks and shares. Those whose incomes are below a certain amount are exempted from the tax, but it is found to be practically convenient for the government to collect it in one sum from the company or bank which pays the dividends, and to leave those who claim exemption to apply for the return of their money. Although there is no great

difficulty in obtaining such a repayment, it is not granted without some trouble and delay, which are, in many cases, enough to prevent any application from being made, and many persons who are entitled to this relief are not aware of the fact, or do not know how it is to be obtained. In all cases where the tax has to be deducted from dividends, much additional trouble is given to the clerks who have to calculate their amount, and the expenditure of labour which is thus caused must be regarded as an addition to the burden which the tax involves. It is not, however, from stock and shareholders that the loudest complaints against the tax proceed, but from the professional and trading classes. As it is not easy for the collectors to tell what is the exact amount of a merchant's income, they must either allow him to fix it for himself or must make some rough guess of their own. The former method at once opens the door for evasion, and is very objectionable, as it places a man's interest in direct conflict with his duty, and, where it is extensively practised, must have a demoralising effect on the classes concerned. In India it is found to be impossible to trust the natives to assess their incomes for themselves, and even the higher standard of morality which prevails in England is not enough to secure the Government from being defrauded by under-statement of incomes. Cases have occurred in which tradesmen who have estimated their profits at a certain rate when filling up an income-tax paper, have fixed them at twice as high a rate when claiming compensation for their loss of business through the execution of repairs in the streets in which their shops were situated. It is of no use to say that such instances merely show the low standard of morality which prevails among the people, and that higher penalties ought to be imposed on all who make fraudulent returns. The government is bound to avoid, as far as possible, doing anything to injure the morals of its subjects, and it is unreasonable to hold out a strong temptation to commit an offence and at the same time to punish severely all who yield to the temptation. If the collectors are allowed to guess at the amount of a merchant's income they are certain to make some mistakes, and if the tax is, notwithstanding, levied according to their assessment, an injustice is committed in a peculiarly irritating manner. Under our present system an appeal is allowed against the assessment of the collector, but it is a troublesome business to appeal, and the officials who have to judge the case are more inclined to decide in favour of the collector than of the taxpayer. It is not surprising that those who have to submit to the questioning and other annoyance which such a system involves should be strongly opposed to the maintenance of the tax, nor that it should be highly unpopular in a country where to brand a proceeding as "inquisitorial" is almost enough to condemn it. It

might have been thought that the great reduction which has been made in the amount of the tax would have mitigated the hostility which it has excited; but, although it does not now amount to much more than 1 per cent., it still gives rise to as much agitation as when it was much higher. This may be because its opponents have been encouraged, by its gradual reduction, to hope for success in their attempt to obtain its abolition, or more probably because those who are most annoyed by it become more unwilling to submit to it in proportion as the benefit which the government derives from it becomes more paltry. Although the change of ministry which took place at the beginning of 1874 was followed by a change of financial policy and a disappointment of the hopes which had been entertained of an immediate repeal of the income-tax, there is every reason to believe that it will not be found possible to retain much longer a tax which, after it has been tried for thirty years, is still as unpopular as ever.

As all incomes are either derived from rent, profit, or wages, or from taxes paid by those whose incomes are derived from one of these sources, a perfectly fair income-tax would press upon all three of these categories. It is generally held in England that wages ought to be exempt, the chief reason being that the expense and difficulty of collecting the tax from labourers would be too great to admit of its being done with profit. A similar tax is, however, imposed in Germany, and the difficulty of collection is much diminished by the simple plan of demanding a smaller sum from those who will pay the whole in one instalment at the beginning of the year than from those who pay it by several instalments. There are some who contend that it is useless to tax wages, because whatever is taken from them must be made up by the capitalists upon whom the tax is said really to fall; but this argument is entirely based on the groundless assumption that the labourers earn nothing but the bare necessaries of life. The fact that duties on tea and tobacco have been frequently raised and lowered without any corresponding change in the current rate of wages is enough to prove that the labourers are able to retrench in their expenditure when a heavier burden is imposed on them, and, in fact, a very large portion of the revenue of this and other countries is furnished by the labouring classes. As the labourers in general cannot shift the burden from themselves to the capitalists, so the capitalists, as a body, cannot shift it from themselves to their customers. When a tax is imposed on a particular article, the tradesmen who deal in it can and do raise the price and make the public bear the cost of the tax; but even in such a case they have to pay their share of it whenever they themselves consume the article in which they deal. They are able to raise the price, because, if they did not, they would be submitting

to a lower rate of profit than prevailed in other trades, and the public are obliged to pay the higher price on pain of seeing the trade altogether abandoned as unprofitable. But a tax which falls on all traders alike, and on them in common with other classes, cannot be shifted on to the shoulders of others, for no one is able to escape it by changing his trade. In whatever way a man invests his money he is still liable to be mulcted of a portion in order to pay the tax, and as those who retain the old prices will be no worse off than if they transferred their capital to other trades, or retired from business altogether, it will be their interest to go on as before, and their competition will effectually prevent others from raising their prices.

In so far as an income-tax falls on landlords, it is a burden which they cannot shift on to the shoulders of others. The rent of land is the surplus which remains after profit and wages have been provided for; and as it is not like the two latter, a reward for any sacrifice, it may be diminished without any discouragement being given to production. If the State were to take the whole rent of the country, it would not be laying a heavy burden on one class, but appropriating for the benefit of the whole community an indispensable article which properly belongs to the community though it has been suffered to become the property of a few individuals. It would, of course, be an act of injustice for the government of any country in which land has become private property to take possession of it without compensation to the owners, but if due provision were made for all vested interests, such a course would be unobjectionable as a matter of morality, and, in some circumstances, profitable as a matter of policy. The State would then have the full benefit of every rise in the value of land which might take place in particular districts in consequence of the increase of population or of improved means of communication, while the tenants who had to pay the increased rents would be no worse off than they would be if they held from private landlords. The labour of the community is the source from which every increase in the rent of land is derived, and if the government appropriated the fruits of every increase and applied it for the benefit of the people, they would receive back in one form what, under a system of competition they are compelled to pay in another. The difficulty of carrying out such a system lies in the incompetence of governments either to manage land judiciously or to apply what it receives for the benefit of its subjects and of them alone. It has often been observed that the management of Crown lands is so bad that what ought to be valuable estates become a source of loss to the nation, and, unless the principles of constitutional governments are very firmly established, it is dangerous to intrust the executive authority with a source of revenue

which is independent of the goodwill of the taxpayers. Some ingenious speculator has ascribed the English rebellion of 1642 to the depreciation of the precious metals which followed on the discovery of America. The argument is that the depreciation lowered the value of the hereditary revenues of the Crown and made it necessary for the Stuarts to apply to Parliament for fresh taxes, and that these applications produced the rebellion. Far-fetched as such a theory is, it can hardly be doubted that the authority of Charles I. would have been retained much longer if he had been able to support the expenses of his government out of the rents of the Crown lands. The Crown tenants would never have thought of refusing to pay their rents when every one who did so must have been ejected from his holding; and if possessed of an ample revenue, Charles would have been able to defy the authority of Parliament for more than two campaigns. Unfortunately for him, and fortunately for his subjects, his predecessors had given away so much of the Crown lands that he had not enough left to bear the expenses of a civil war. It is remarkable that a similar state of things is now exhibited in one of the youngest of English colonies, that of Victoria. In the course of 1875, a proposition was made in the Legislative Assembly of Victoria to prohibit any future alienation of public lands, and those who advocated it relied on the authority of Mill and other English economists; but the minister was able to obtain its rejection by simply pointing out that if the sales were stopped the deficiency of revenue must be made up by the imposition of a tax. Thus, in Victoria, as in England, the policy is pursued of killing the goose which lays the golden eggs; and rather than submit to taxes for themselves, the people reject a course which would enable their posterity to secure the benefits of an established government almost free from the corresponding disadvantage of taxation. The difficulties in the way of such a step as the appropriation of all land by the government are trifling in Victoria in comparison with what they are in England. The waste land of Victoria, which is still held by the government, is of large extent, and might be retained without interfering with any vested interest; and it is certain that much of it will at some future time yield a rent which the government can thus appropriate without spending anything in compensation. But in England the extent of waste land is so small in proportion to what is already cultivated or utilised in some other way, and there is so little of it which could be made to yield a rent, that no material relief to the revenue would be afforded by a measure which was confined to the lands not already taken into cultivation. It is not, however, necessary that the line should be drawn at this point, for the requirements of justice would be satisfied if all existing landlords received the full value of their

estates at the time when the change was introduced. It is only necessary that they should be offered the option of selling their estates to the government or continuing to receive their former rents, while any further increase was transferred to the government in order to prevent any just complaints. There might be some difficulty in fixing a permanent rent without at the same time discouraging landlords from applying capital to the improvement of the estates which were left them, but, after all, the problems to be solved would be no harder than those which are settled by hundreds of stewards and land-agents every year. What the State is entitled to appropriate is what Mill has called the "unearned increment" or increase in the rent of land arising independently of any exertion or outlay on the landlords' part, and there can be no great difficulty in settling its amount, at least accurately enough for practical purposes. It is objected to this proposal that landlords who have been judicious enough to buy an estate which has afterwards risen in value are as much entitled to enjoy the fruits of their sagacity as those who have made equally judicious investments in stocks or shares, and that there is no more reason for the State to appropriate the "unearned increment" in the one case than in the other; but this objection admits of being answered in several ways. In the first place, any proper scheme of compensation would include due allowance for the value of the prospect of an increase in the rental of a particular estate; and landlords who were disappointed of a larger rental would enjoy the advantage of receiving a larger capital sum if they could point out a reasonable probability of an increase in the value of their estates. If no individual suffered a loss, as would be the case if the scheme were properly carried out, the whole class of landowners could not be injured. In the second place, no one really supposes that when any public advantage can be derived from the compulsory purchase of particular stocks or shares such a proceeding is indefensible because the holders are thus disappointed of their expected profit. When the telegraph companies were bought up by the government no one suggested that the shareholders were unjustly treated because they were deprived of the chance of earning larger dividends, but the value of their chance was calculated and paid for accordingly. Shareholders, indeed, generally regard compulsory purchase as meaning the purchase of their property at more than its value, and are rather prone to agitate for, than against, such a measure. In the third place, there is an essential difference between land and other things which become the subjects of private property, which justifies a different mode of proceeding in regard to it. The economic reason for respecting private property is that it encourages the production of wealth; but this does not apply to land, which is not the product of

human labour. Land is at the same time limited in quantity and essential to the maintenance of life, and it is therefore impossible to admit the theory that one or a few individuals can ever have a right to monopolise it and prevent the rest of mankind from making use of it. Self-preservation is the first law of nature, and all men have an equal right to maintain themselves by appropriating the fruits of the earth when these are produced without the expenditure of human labour. If it be once admitted that individuals may acquire and transfer to others a right to the exclusive use of a particular portion of the earth, there is nothing to prevent one or a small number of individuals from acquiring possession of the whole, and if they are regarded as possessing the same rights over their landed property as over articles which they have made with their own labour, it follows that they have a right to keep the earth for their own exclusive enjoyment and to debar the rest of mankind from making any use of it. As this cannot be admitted, it follows that mankind, as a whole, have a right which they can at any time assert to hold the earth in common, and to ignore any claims of individuals to monopolise particular portions of it. When the inhabitants of a particular country decide that all the land which it contains shall be held for their common benefit they are simply carrying out a logical principle with as much consistency as circumstances will admit. In point of fact, the right of the community to take land from individuals when it is wanted for public purposes is everywhere recognised and enforced ; and a conspicuous instance is afforded by the compulsory powers of purchase which have been granted to railway companies. In such a case, the State and the community are practically identical, and the appropriation of all the land by the government may be regarded as the successful assertion of a natural right. Whatever difficulties there may be in carrying out such a system it is much to be desired that they should be resolutely grappled with, for success in the undertaking would be equivalent to the raising of a large revenue without any real burden on those who have to furnish it.

Where it is found impossible or inconvenient to raise a revenue by direct assessment on the real or supposed amount of the taxpayee's property, the principal resource left is to tax them according to their expenditure. In many respects the amount of a person's expenditure affords a better guage of his capacity to bear taxes than the amount of his property. By taxing expenditure the difficulty of deciding how much ought to be allowed for savings is avoided, and when the subjects for taxation are judiciously selected there is less room for evasion. One of the best subjects which can be chosen for the purpose is a house, which cannot be concealed, which very few persons can possibly dispense with,

and of which it is tolerably easy to estimate the value. The main object to be kept in view in fixing taxes of this kind is to choose such as will not defeat their own end by inducing the taxpayers to give up using the taxed article, and this is a danger which is less likely to prove serious in the case of houses than in that of any other article which could be selected. A house-tax might, indeed, induce some people to live in inferior houses in order to pay a lower tax, but the revenue could not be seriously diminished in this way, for if the practice became general, all that would be necessary would be to raise the rate charged on inferior houses. A house contributes so much to a person's comfort, and is so commonly taken as a test of his position in society, that the last thing which any one would do who could avoid it would be to move from a good house to a worse one. Houses are so commonly sold and let, that it is very easy for officials possessed of local knowledge to make a fair assessment of their value, and there is no occasion for holding out any temptation to the owners by requiring them to set their own value on their property. A house-tax should be regarded as a tax on expenditure, and, therefore, varying in proportion to the amount which the owner can afford to spend on his personal enjoyment. Thus, on the one hand, a merchant who is required by the nature of his business to use a large building for storing goods or other purposes, should not be required to pay in proportion to the letting value of his office, but only in proportion to the value of his private house, by which his means of enjoyment can be really tested. House taxes being chiefly levied in England for local purposes, the inhabitants of each district are apt to think themselves aggrieved if any buildings are allowed to stand in it without contributing to the tax. If the buildings were not there, they say the ground might, or would, be covered with houses which would be liable to the tax, and they think this a sufficient reason for taxing all the buildings which belong to the central government, to companies, corporations, charitable, or other societies. As far as regards the rates for lighting and repairing the streets the argument is reasonable enough, for those who use the buildings must use the streets which lead to them, and would have to provide the means of lighting and repairing the streets if it were not done for them by the local authorities. But to proceed from this to argue that these buildings ought to be subjected to the poor rate is to lose sight of the original object of the tax, and to reason as if taxes were to be paid, not by human beings, but by inanimate objects. A house-tax is levied for the support of the poor because it affords a convenient means of raising the required sum, and its object is not that every piece of ground should contribute in proportion to its extent, but that every citizen should contribute in proportion to his wealth. If every dwelling-

house is taxed, everyone will have to pay in proportion to his ability, while if every building is taxed, many persons will have to pay twice over. The fact that the tax is local makes it an apparent grievance for the inhabitants of a district to have to pay increased rates when private houses are bought by public bodies, but unless the districts are very small the hardship thus arising will be quite inappreciable, and the substitution of public for private buildings tends, as far as it goes, to diminish the number of houses which will furnish paupers. It is preposterous that a building like St. Thomas's Hospital should be taxed for the poor-rate merely because private houses would be taxed if they stood on the same site. The charitable people who subscribe to the hospital are thus forced to contribute towards a burden which the Government had decided the people of Lambeth should bear ; and by restricting the means and consequent usefulness of the hospital, more injury is done to the poor than can possibly be repaired by a redistribution of the poor-rate. On the other hand, when the mansion of a wealthy proprietor is valued for the purpose of taxation, it should not be, as is now the practice, assessed at a low rate on the ground that considering how much it costs to keep it in repair it could not be let for any high rent. The letting value of a house affords a fair basis for taxation when the occupier pays a rent for it, but when the occupier is also the owner this is not necessarily the case. The large houses of great landed proprietors are universally regarded as a proof of great wealth, and should be treated as such in settling a scale of taxation. In their cases an estimate ought to be formed of the amount of money that has been expended in building the house, and the annual yield of this sum, calculated according to the price of the funds or of land, would form a fair basis for taxation. A revaluation, might, of course, be made from time to time, and due allowance made for any depreciation occasioned by want of repairs. A house-tax is a tax on wealth, tested by means of expenditure, and those who show by the outward appearance of their houses that they possess great wealth may be fairly called on to bear a large share of the public burdens.

There is no suggestion more popular with those who have not reflected much on the principles of taxation than that the revenue should be raised by taxing luxuries. Such a suggestion seems to couple the advantages of deriving a revenue from those who are best able to afford it, and of properly discouraging that mode of expenditure, which, because it is called luxurious, is supposed to be condemned as pernicious. In fact, however, these two reasons for taxing luxuries contradict each other, and no tax can combine both advantages. In order that the rich may be compelled to furnish a revenue to the government, they must be

subjected to taxes which they cannot evade, and most of what are called luxuries are things which those who use them can afford to do without, and would do without rather than pay a heavy tax for their use. One of the most remarkable instances in which the imposition of a tax on an article of luxury has been followed by the disuse of the article is afforded by the imposition of a tax on hair-powder in 1797. Before that time, it was the common practice for the men-servants in all great houses to powder their hair, but as soon as the tax was imposed, although it was by no means a heavy one, the practice was almost discontinued, and powdered hair continues to be the exception, and not the rule. In this case the revenue received hardly any benefit, while nothing was done to discourage luxury. Those who had indulged in this particular luxury were induced to abandon it, but as they were not compelled to hand over to the government what they had formerly spent in this way, their means of enjoyment were in no way diminished, and they doubtless found other ways of gratifying their luxurious tastes. To tax luxuries is to expose the government to such defeats as that which was encountered in the case of the powder-tax, and is really to give a great deal of annoyance for the sake of a very small gain. If the luxuries selected for taxation are, as they most commonly would be, only consumed by a small class, the first of Adam Smith's maxims is deliberately violated, and one part of the community which has done nothing to deserve it is singled out for an exceptional burden. In order to raise a large revenue from a small class, a high rate must be imposed, and this would in all likelihood lead to the disuse of the taxed article, while, if the government where content with a small revenue, the expense of collection would be proportionally great, and in either case the government would be a loser, while no one would be a gainer. If the government transfers the tax from one luxury to another, as each is successively abandoned it inflicts hardships on its subjects without deriving any advantage for itself, and does the very thing which it ought, as far as possible, to avoid. There are, however, a few cases in which a revenue may be derived from the taxation of luxuries to which those who enjoy them are too much attached to be induced to abandon them by any taxes which are not exorbitant; and, in such cases, there is nothing to object to in this mode of raising a revenue. The light tax which is imposed on those who keep men-servants in their employ certainly could never have the effect of inducing rich people to dismiss their footmen rather than pay the tax; and it is one which is cheerfully paid and easily collected. In this case, as in the case of houses, a distinction should be made between servants who are kept for pleasure and those who are kept for business, and it is singular that innkeepers should ever have been required to pay for the waiters

whom they are obliged to employ. The number of men-servants kept in a private house may serve, like the size of the house itself, as an index of the wealth of its owner ; but the number of waiters in an hotel cannot be taken as a test of the landlord's wealth when compared with that of persons not engaged in business. The exemption which landlords obtained a few years ago is therefore just and reasonable. Carriages and horses, when kept for pleasure, and not for business, are equally well suited for taxation, as the taste for these luxuries is too deeply rooted to be eradicated by such moderate taxes as are now imposed upon them, and the persons who have to pay them are certainly well able to do so. As much may be said of the tax on armorial bearings, though it would probably not admit of any considerable increase.

The duties which are imposed on licenses to follow certain trades and professions, although, when moderate, they do not give rise to much complaint, are objectionable in principle, as they are almost of necessity unequal in their operation. If the license is uniform for all persons engaged in the business, it must obviously press hardly on those who are least successful, while those who are doing a good business will hardly notice its pressure. Not being regulated in proportion to the amount of goods sold, or services rendered, it cannot be transferred, like customs duties, from the dealers to the customers, for if the less successful dealers raise their prices in order to escape from the burden, their more fortunate rivals would be able, by retaining the old rates, to drive them out of the market, and would be compensated by increase of business for the loss inflicted by the tax. The license duties imposed on auctioneers and a few other classes are liable to these objections, and though they are so light that no great harm can be done by retaining them, yet, as they are essentially unequal, they should be among the first selected for repeal whenever there is an opportunity for reducing taxation. The tax which is levied on barristers at the time when they are called to the bar belongs to the same category as tradesmens' licenses, though, as it is only paid once, it does not produce very much inconvenience to the parties concerned. The class who are subjected to this tax are generally well able to bear it, and it is only in exceptional cases that it can do any harm by preventing a poor man from adopting the legal profession. If such cases do occur, the hardship is perhaps apparent rather than real, for it is scarcely possible that a man who is not able to pay the tax should be able to support himself during the time which must elapse before he gets sufficient practice to support him. As a general rule, however, license duties, and all taxes imposed on particular classes, should be avoided, as it is neither possible to assess them fairly as regards individuals of the same class, nor as regards different classes. Each

class which is subjected to a special tax is prone to regard itself as unjustly treated, and to agitate for the repeal of the tax; and it is better to trust to those imposts which press on a large number of citizens and in proportion to their wealth.

The taxes which are levied on the occasion when sales are effected and payments made are generally collected by means of stamps, a method which is extremely advantageous, as it involves very little expense to the government and very little trouble to the taxpayers. It is only necessary for the government to declare that no transaction is valid unless the proper stamp has been affixed to the deed in order to insure that the tax shall be paid in almost all cases. Where no such precaution is taken, a great temptation is held out to evasion, and there can hardly be a more melancholy example of the want of public spirit in a nation than was afforded by the Italian Chamber of Deputies, when, in 1874, they refused to pass a bill invalidating all contracts which were not duly stamped. The sole motive apparently which prompted this refusal was the unwillingness of many of the Deputies to submit to the loss which they would have suffered as individuals if compelled to obey the law, and a country where such a motive can sway the popular branch of the legislature is, indeed, in a pitiable condition. Taxes of this kind are not altogether free from objection, as they to some extent impede the transfer of property from hand to hand, but every tax must produce some inconvenience, and there are few which are less objectionable. In some cases, as in that of powers of attorney, the same stamp is required whatever be the amount of the transaction, and this is rather a hardship for holders of small amounts of stock who may wish either to sell out or to empower a banker to receive their dividends for them. No stamp is required when fundholders go in person to sell out their stock or to receive their dividends, and there seems no good reason why they should be favoured in comparison with those who prefer to do the work by deputy. The stamp-tax on receipts is also uniform whatever the amount of the sum received, provided this exceeds a certain minimum, but its amount is so small that it cannot be regarded as a serious burden, even in the case of the smallest transactions which are subjected to it. It is not easy to say on whom this tax falls, for though it is always paid by the receiver, he may in many cases be able to transfer it to the payer. Tradesmen are those who are most often required to use receipt stamps, and if they find that the sum which they have to spend upon them forms a serious deduction from their profits they will no doubt raise their prices enough to throw the burden on their own customers. It may, however, be generally considered as a direct tax.

CHAPTER III.—INDIRECT TAXATION.

CUSTOMS — EXCISE — DUTIES ON STIMULANTS — TITHES — FINANCIAL POLICY.

THE distinguishing feature of indirect taxes is, that they are paid without the taxpayer feeling that he is paying them, and while this renders them popular with financiers and with those whom they have to govern, it is made a ground for objection by those who, looking beyond present convenience, desire to adopt a system which will secure judicious and economical administration. If people do not know how much they are paying, they may be made to pay a great deal without complaining, and a system which keeps them in ignorance is favoured by those who recognise the necessity of certain expenditure, but doubt the willingness of the people to provide the means of incurring it. The advocates of economy, on the other hand, say that no real check can be put on lavish expenditure, while financiers can resort to expedients which conceal the extent of the burden from those who have to bear it, and that if the whole revenue were raised by direct taxation, the extravagance which has hitherto prevailed would soon be put an end to by the resistance of the taxpayers. Each of these arguments has a good deal of truth in it, but neither can be safely relied on as a general principle without regard to the character of the nation whom it is proposed to tax. Almost every civilized country now possesses a funded debt, and if it were true that the means of providing for the payment of the interest could not be drawn from the people by direct taxes, a sufficient case would be made out for resorting to indirect ones. But it would be rash to assume that this is the case in all countries. In England the number of fundholders is so large, and so large a proportion of them belong to the rich and influential classes of society, that any project of complete or partial repudiation would be sure to be stoutly resisted. Nor does it argue much national partiality to assume that the general standard of morality is too high for such a project to find any favour even among those whose interests are not bound up with the security of the funds, and that the maintenance of our public faith is independent of any particular method of taxation. In a country where the government has borrowed a large amount from foreigners, there is a greater temptation to repudiation, but the experience of Peru, as well as of other States, shows that an indirect tax, even when specially hypothecated to the bondholders, affords no solid guarantee against it. Nor, on the other hand, is it safe to assume

that indirect taxation leads to extravagance which direct taxation would prevent. Some nations like their government to perform functions which are elsewhere entrusted to private enterprise, and though each individual can see that he is paying taxes in order that it may be performed, yet each may think that his share of the burden is lighter than it would be if the government did not meddle in the matter. In countries where education is provided by the State, a school-rate of some kind is generally imposed, which must be obvious enough to those who have to pay it, and yet they show no disposition to forego the advantages of State education in order to be subject to lower taxes. In a country where the people or their rulers are really disposed to extravagance, direct taxation would rather have the effect of plunging them into debt than of preventing useless expenditure from being incurred. They would sanction expenditure upon railways or other public works on the plea that these would pay their expenses, and when these expectations were disappointed, would raise a loan, and, in due course, fail to provide the interest on it, and end, at last, in default or repudiation. But though neither system of taxation can be regarded as a panacea for all the ills to which finance is liable, the advantages of the direct method are such as to make it preferable whenever it is possible to resort to it. Its adoption does not entail any beyond the slightest possible interference with the industry of the people, and this is the principal object to be kept in view in devising a scheme of taxation.

The two principal heads under which indirect taxes are classified are those of customs and excise, the former embracing those duties on commodities which are levied at the frontier, and the latter those which are raised in the country where the commodities are produced. One argument which is always used in favour of customs duties is, that they are collected at a very small cost, which in this country does not much exceed 3 per cent. on the amount collected. But Mr. Cliffe Leslie, whose essay on Financial Reform * is an exhaustive statement of all the arguments against indirect taxation, has taken pains to show that this low per centage does not prove that the cost to the country is really small. If there were no customs duties, every ship would be free to load and unload at any part of our coasts or of our navigable rivers where such operations could possibly be carried on, but to allow this would be greatly to increase the cost of collecting the duties. It would be necessary that Custom House officials should be stationed at every place where a ship could possibly discharge its cargo in order to be ready to examine it immediately on arrival, and to decide whether any and what duties

* Cobden Club Essays, 2nd series, 1871-2.

should be paid. The expense and difficulty of providing such a number of officials would be enormous, and it is therefore provided by law that no ship shall load or unload at any place which has not previously been declared a port. There are now, or there were in 1871, 133 ports in the United Kingdom; but even at these privileged places the importation of some taxed articles is not permitted. There are only 59 to which wine can be brought, and only 11 where it can be tested for the purpose of deciding how much duty is to be paid on it, and there are only 35 at which tobacco can be imported. It is obvious that these restrictions force trade into channels into which it would not naturally flow, and as the course which men naturally take in pursuing their own interests is that which meets with the least resistance, it follows that the artificial direction thus given to trade must be more troublesome, or, in other words, more costly. Merchants must send their goods to those places which have been selected by the Custom House authorities; and these places must therefore be selected as the termini of roads or railways along which the goods are to be conveyed to the consumers. Instead of sending goods to the part of the coast nearest to their ultimate destination, merchants must send them to a port, however circuitous the route may be, and this diversion forms an addition to the cost of commodities of which no account is taken in Custom House calculations. From time to time new places are declared ports, but applications for the purpose are always resisted by the officials of the Custom House, on the ground that the trade of the place is inconsiderable and that they have no reason to expect much profit from the concession. To these arguments, Mr. Leslie replies:—"The Commissioners of Customs are accustomed to reply to memorials for privileges of importation and warehousing that the places from which they proceed have but little foreign commerce and no considerable consumption of dutiable commodities, as though their own restrictions might not be the cause of that state of things, as though this were not an age of progress in which places may suddenly rise from obscurity to opulence and eminence, and as though the foreign trade of any place could be great at the beginning." (p. 198). If vessels were allowed to unload wherever their owners pleased, every place would have a fair chance of becoming a centre of trade; but now that no use can be made of a bay or estuary until it has been declared a port, the trade of many places is nipped in the bud. It is not worth while to deepen a harbour, because the town has no foreign trade; and the fact that the harbour has not been deepened prevents it from being declared a port, and, therefore, from acquiring any trade. It is not unreasonable to suppose that many shipwrecks might have been avoided if our coasts were more thickly studded with harbours, as they certainly would be if

it were not for Custom House restrictions, but the loss thus occasioned is incalculable and does not figure in official statements. The great objection to all interference with industry is, that what appears to be a slight restriction, may, and frequently does, produce unforeseen evils of a serious kind ; and this applies as strongly in the case of purely fiscal regulations as in that of restrictions imposed for the protection of native industry. London is especially favoured by the Custom House officials, but the concentration of foreign commerce in London is a questionable benefit to its inhabitants, and is certainly an injury to the rest of the country. Even in the particular towns which are favoured in comparison with others, there is not perfect liberty for ships to load and unload at the places most convenient to the owners, but these operations must be performed at the places where they can be overlooked by the Custom House officials. The space is confined in order to facilitate supervision, and the crowding which is the necessary consequence imposes much delay and inconvenience on the merchants, which must be in some way or other paid for by their customers. The inconvenience of Custom House regulations is very little diminished by the repeal of duties as long as any are left unrepealed, for all ships and railway trains must be inspected to see whether they contain any taxed articles. The whole coast must be guarded by a complete cordon of revenue officers, in order that smuggling on any part of it may be detected and suppressed, and the luggage of non-commercial travellers must be inspected for fear it should contain any contraband articles.

It has often been objected to these duties that they require each trader through whose hands the goods pass to employ a larger sum of money in his trade than he would otherwise do in order to pay the tax, and that his customers must reimburse not only his actual outlay but the profit which he might have made on his money if he had not been compelled to advance it to the government. J. B. Say was of opinion that the increase of the burden thus occasioned was not compensated by any corresponding benefit to the Treasury, but Ricardo shewed (chap. xxix) that this is incorrect, because such a method of collecting the revenue enables the government to get the money earlier than it would otherwise do, and practically to gain as much in the form of interest as the merchants and manufacturers lose. Either the government wants the money immediately, in which case it is spared the necessity of issuing exchequer bills or raising some other kind of loan on which interest would be paid, or it does not want the money, in which case it can make a profit by redeeming some of its own stock, or lending directly to the manufacturers whom it obliges to advance the duty. Another French Economist, Simonde, is also noticed by Ricardo, who fell into

the error of calculating the additional expense as if it were a charge of 10 per cent. every time the goods changed hands, and by reckoning this at compound interest, greatly magnified the extent of the burden. As Ricardo pointed out, the rate of profit should not be reckoned at more than 10 per cent. per annum, and if the goods change hands six times in as many months the addition to the price would not be 60 per cent., but little, if at all, over 5 per cent. The direct loss moreover resulting in this way may be reduced almost to nil by a proper method of collecting the duty. The system of bonding, which has long been in use in this country, affords great relief to the dealers in taxed articles. Instead of the duty being levied as soon as the goods are imported, they are allowed to be stored in bonding warehouses, and no duty is charged as long as they remain there, nor is it charged at all if they are again exported to foreign countries. By this system the importer is allowed to defer payment of the duty until the time when he is prepared to sell the goods to other dealers, and the extra expense which he incurs must be very slight when he takes full advantage of the facilities afforded. The system is far from perfect, and there are many places where it is difficult to procure warehouses, which, at the same time, suit the merchants and comply with the rules which must be made by the Custom House authorities, in order to prevent evasion of the duties; but, so far as it goes, it affords a relief to the trade without inflicting any loss on the revenue. In Norway, it is carried to a still greater extent, for dealers are allowed to import goods on merely giving security that the duty will be paid, and to pay it by instalments as the sales are effected. In Norway, therefore, import duties can hardly produce any disturbance in the distribution of mercantile capital, which is more than can be said for England. For a longer or shorter time merchants and manufacturers are required to advance a large sum of money, which they would not have to do if these duties did not exist, and this necessity gives an advantage to the wealthy capitalist over his poorer rivals. The consequence is, that there is a constant tendency in those trades which relate to taxed articles to get into the hands of a few large dealers. Thus the number of maltsters is found to be diminishing, and the whole number of distillers in England is said to be no more than eight. This concentration must be to some extent injurious, for the fewer the competitors the less is the chance of one of them introducing an improvement, and the process almost necessarily entails the ruin of many unsuccessful competitors. As, however, it is advantageous to those who do succeed, it is not to be wondered at that few complaints are heard from the traders themselves.

When a particular article is selected as the subject of an import duty,

there always arises the question whether all qualities shall be taxed alike, or an attempt made to vary the duty according to the real or supposed value of the article. The former course is more popular with the dealers themselves, but it obviously makes the tax press very unequally on poor and rich consumers. The tobacco duty is cited by Mr. Leslie as an instance of this inequality, the duty amounting to about 25 per cent. on the best cigars, and to 500 per cent, on the inferior tobacco used by the working classes. This, however, is not of so much consequence in itself, for an inequality in respect of one tax is not enough to condemn it if counteracted by another inequality in other taxes, and there are several from which the working classes are practically exempted. But so high a duty as 500 per cent. constitutes a great premium on smuggling, and all uniform duties must on this account be more or less objectionable. If an attempt is made to vary the duty according to quality, complaints at once arise of the inconvenience which is thereby caused to importers. The sugar-duty, which has been repealed since Mr. Leslie's essay was written, is cited by him as an instance of the great annoyance and uncertainty which such attempts introduce into the trade. Sugar producers complained that they found it impossible to tell beforehand how much duty would be charged on any particular quality, and even when samples were sent out to India, in order to guide the manufacturers on the point, they were so much altered during the voyage as to be quite worthless. Being constantly exposed to loss on account of a higher duty being charged than had been expected, the manufacturers found that the most convenient course was to send none but the lowest qualities to the English market. In spite of all the precautions that could be taken to secure uniformity in the decisions of the officials employed to examine sugar, there was always some room left for differences of opinion, and the merchants thought it hard when a doubtful case was decided against them. Although Customs duties are certainly indirect taxes, as the dealers recoup themselves by raising their prices, they do, as Mr. Leslie argues, fall, in many cases, on producers and dealers, and on them alone. It must often happen that a commercial venture leaves no profit, or even leaves a loss, and when the duty has been paid the merchant is not compensated at all; and this more particularly applies to such cases as that of sugar, where the amount of the tax was a most uncertain quantity. The system on which the wine duties are now levied appears to combine the disadvantages of both systems, for, while it renders it necessary that all wine shall be tested, it does not vary the rates in any proportion to the value of the wine. The duty is levied according to the quantity of alcohol in the liquor, though why this should be taken as a basis has never been satisfactorily explained.

It was assumed, when the system was introduced, that no natural wine ever contained more than 26 per cent. of alcohol, and that any excess above that point must be due to the artificial introduction of spirits; and this assumption is still acted on, although it has been abundantly proved that many unadulterated wines contain as much as 30 per cent. of alcohol. All wines which contain less than this are subjected to the lower duty, while the higher is charged on all which exceed it and do not exceed 45 per cent., above which latter point the liquor is regarded as spirits, and taxed accordingly. This classification has the effect of encouraging the importation of French wine, and of discouraging those of Spain and Portugal, and, of course, gives rise to complaints from the latter countries against what they consider as the partiality of the English system. It is, of course, made an excuse in Portugal for keeping up duties on English goods. The adoption of the alcoholic test makes it necessary to limit the number of ports at which wine can be imported and tested, in order that uniformity may be secured in the decisions of the official testers; and this, as before mentioned, is a great impediment to the growth of many of the smaller ports, and must be an injury to the consumers. An uniform duty, which has often been recommended, would do away with these objections, but would still leave the inequality of the tax untouched.

Duties on exports, which are imposed in some countries, can only succeed in exceptional cases. If the article is one which is produced in several countries at a nearly equal cost, an export duty can have no other effect than to deprive the country which adopts it of a foreign market for its produce, and thus fails to yield a revenue while doing no good to any one. There are, however, a few cases in which one country has so great an advantage over others in the production of a particular article that a reasonable duty can hardly cause any falling off in the foreign demand. Cotton in the United States, gold in Australia, and coal in England, are instances of this kind. By the Commercial Treaty with France England has bound herself not to levy an export duty on coal, and Mr. Jevons has expressed a strong disapproval of this clause. His object being to draw attention to the danger of the exhaustion of our coal supply, he is naturally disposed to object to any measure which encourages the consumption of coal, and he finds fault with the Government for resigning its liberty of action in so important a matter. But in order that an export duty may check the exhaustion of the coal-fields, it must be high enough to deter foreigners from buying it; and if it did so it would cease to yield a revenue, and become a matter, not of finance, but of public policy. For the present, at least, the imposition of such a duty could have hardly any effect, for the quantity of coal exported is

but a very small part of the whole quantity produced, and if it were reduced to nothing the ultimate exhaustion of the supply would be hardly at all retarded. The export of coal is commonly spoken of as if it were handing over to foreigners what we may some day want for ourselves, but, in fact, a great part of what is exported is sent to various depôts for the use of English steamers ; and English trade would suffer if the exportation was stopped. While the exportation is allowed to go on it is as advantageous to Englishmen as it is to foreigners, and it is a singular sort of philanthropy which would impose sacrifices on the present generation of Englishmen and foreigners in order that at some future time there may be an artificial inducement to our posterity to inhabit these islands rather than any other portion of the globe. Every one who has read Mr. Jevons' book on the coal question must have been struck with the ability with which the facts and arguments are arranged; but there is, it appears to me, one oversight which takes away the value of the conclusions arrived at. The author proves that the manufacturing supremacy of Great Britain has been chiefly owing to the development of the coal-fields, and that if the consumption of coal increases at its present ratio the whole supply will be exhausted in less than a century. This is enough to show that we cannot expect that Great Britain will continue to keep ahead of other countries, or to make such rapid progress as it has done during the last century ; but he goes further, and concludes that it will be poorer, absolutely, than it is now, and not merely relatively to other countries. This by no means follows, for as the country made progress before coal was used, and as other countries which have no coal make progress, so Great Britain may continue to progress at a slower rate when the production of coal has slackened or altogether stopped. The speedy exhaustion of which Mr. Jevons speaks will only take place if the consumption continues to increase at its present geometrical ratio, while if the annual production remained at double its present figure the coal would last for more than three centuries, and it is hardly necessary to forecast what would happen at so remote an epoch. The area of the British coal-fields far exceeds that of all the rest of Europe, and as Continental countries contrive to advance while under this disadvantage, so Great Britain may do the like, though its progress may, and probably will be, slower than it has hitherto been. Any check on the export of coal, while it would fail to do more than postpone for a few years the ultimate exhaustion of the supply, would, by impeding the free expansion British commerce and industry, impede the introduction of those improvements in farming and manufactures which afford the best means of enabling a people to contend against the disadvantage of diminished mineral resources.

A system of Excise naturally, and almost of necessity, accompanies the establishment of Customs duties. If a duty is levied upon articles imported from abroad, it would obviously fail to yield any revenue at all if similar articles could be produced in the country without paying any duty. Hence the best subjects for an import duty are such articles as cannot be produced in the country, or can only be produced at such an exorbitant cost as to render competition with the foreigner a hopeless enterprise. Tea answers to this description, and the duty on it yields a large revenue with about as little inconvenience as any Customs duty can cause. It is not necessary that any precautions should be taken to see that tea is not grown in the country, for it is well known that no such attempt will ever be made. But in the case of spirits it is obviously necessary to levy a duty from native manufacturers corresponding to that levied from importers ; and neither duty would be sufficient without the other. Great as are the inconveniences which attend the levying of a Customs duty, they are slight in comparison with those which an Excise duty causes to producers. It is bad enough that merchants should be compelled to send their goods to places which are inconvenient to themselves because they happen to suit the officials of the Custom House, but it is far worse that producers should only be allowed to produce at the times and places and in the manner which suits the Excise officers. It is but fair, however, to admit that there are cases in which an Excise duty actually leads to an improvement in production, although, as a general rule, it has the contrary effect. A remarkable instance of this kind is given by McCulloch in his work on Taxation (pp. 156-7, 3rd edition). "In 1786, in order to prevent Scotch distillers from evading the payment of a spirit duty, a calculation was made of the amount of spirits which could be produced in a still of a given size, and the license duty was imposed on every still in proportion to its cubic contents. This held out an inducement to distillers to discover some means of making a still do its work in a shorter time, and it was soon discovered that by lessening the depth of the still and increasing its diameter, a larger surface would be exposed to the action of the fire, so that its contents would be run off in considerably less time." A few hours then sufficed to do what had taken a week under the old system, and the improvement having been generally adopted the government found it necessary to increase the duty. This was done more than once, but each time the distillers adopted a fresh improvement, until at length they were able to do in three minutes what had taken a week before their inventive powers were stimulated by the imposition of the duty.

Every trade which is subject to an Excise duty must be exposed to constant supervision by the collectors, in order that nothing may be

produced without the duty being paid on it; but even at the best the visits of these collectors are a constant source of annoyance, and the restrictions which they impose act as a great hindrance to improvements in production. When a duty was levied in this country on glass the manufacturers were not allowed to make experiments without having received special permission, which was seldom granted, and an improvement which was discovered was actually forbidden because it might have led to some evasion of the duty. By successive additions, moreover, the duty was made so high as greatly to check the consumption, which was actually less in 1813 than it had been in 1794. Not only were people discouraged from using mirrors and building hothouses, but a very serious obstacle was placed in the way of producing the glass instruments required for chemical and other scientific experiments. When the duty was repealed in 1845 a distinguished astronomer expressed a belief that many discoveries in astronomy and other sciences might be expected to follow, the benefit from which is, of course, incalculable. A large number of Excise duties have been repealed during the last 40 years, but the few which are retained still cause great inconvenience; thus Mr. Leslie tells us that "A manufacturer of glucose was lately stopped in the execu- of important improvements, lest the use of that species of sugar in brewing in the mode designed should lead to evasion of the malt duty" (p. 224). The duty on spirits not only raises the price of strong drinks but impedes the growth of a number of manufactures. When methyllated spirits, which contained a mixture of wood naphtha, were admitted duty free, they were at once used for the following purposes:—"Making furniture polish, varnishes, and lacquers, dissolving gum resins for hat manufacturers, manufacturing hypersperm oil, chloroform, sulphuric, nitric, and chloric ethers, sweet spirit of nitre, fulminating powder and transparent soaps, extracting vegetable alkaloids, such as quinine, morphia, &c., making soap liniment and extracts required in veterinary medicines, preparing goldbeaters' skins, floating mariners' compasses, and filling spirit levels, preserving objects of natural history, in chemical and anatomical researches, and as a source of light and heat for domestic purposes in a great variety of appliances of luxury and comfort, from the spirit lamp on the breakfast table to the singeing apparatus in the stable." As regards transparent soap no permanent benefit was derived from the permission to use methyllated spirits, for their odour proved so disagreeable to the public that the experiment had to be abandoned,* and I believe that all the soap of this kind which is now used in this country is imported from the Continent, where lower duties are imposed on spirits.

Cliffe Leslie (p. 225).

"The Excise Department," says Mr. Leslie, "prohibits the cultivation of tobacco in the United Kingdom, forbids farmers to steep grain, save on the farm on which it is to be consumed, and a quarter of a mile at least from any malt-house or kiln, disallows the manufacture of sugar, unless on the same premises through every stage of the processes, denies to the brewer the use of sugar, unless in a solid form, prescribes the course of manufacture minutely in certain industries, with heavy penalties for the smallest deviation from regulations which are sometimes grossly wasteful and always obstructive" (p. 220). When we consider that every duty, whether levied at the Custom House or at the Excise-office, gives rise to some such obstruction or annoyance, it appears singular that McCulloch should have thought it right to protest against the policy which has been pursued by the English Government, both before and since his death, of repealing duty after duty, and reducing them to an insignificant number. He argues, that in order that a large revenue may be secured it must stand on a broad basis, and that if a few articles are heavily burdened public attention is concentrated upon them, and continual complaints are made of the pressure of each duty until it is repealed. But there is nothing really safer in raising a revenue from a great number of articles than from a few which are universally consumed. It is the wealth of the people which enables them to bear taxation, and if the articles selected for taxation are such as they cannot do without the government can depend on receiving a large and certain revenue from them. Complaints are just as likely to arise when many articles are taxed as when only a few are so, but the government is better able to resist the clamour against a particular tax when it is able to refer to its productiveness, and to challenge the objectors to provide a substitute. Much has been said of late years in favour of "a free breakfast-table," but the fact that the sugar duty has been repealed does little to strengthen the hands of those who would repeal the duty on tea. This latter duty is exceedingly productive, and causes as little inconvenience to the dealers and consumers as any Customs duty can do, and the repeal of the sugar duty is more likely to be adduced by statesmen as a reason for taking off some direct tax than for continuing still further to reduce the number of indirect taxes. Those who object to a particular tax are too apt to argue as if it was a question between it and and no tax, and to forget that it is really a question between it and some other tax. The paper duty, for instance, was persistently attacked and eventually repealed on the ground that it was a tax on knowledge, though in point of fact there was no greater obstacle placed in the way of the spread of knowledge by raising the revenue in this way than there would have been if an equal amount had been raised by any other tax. It is true that the paper

duty raised the price of paper, although the difference was hardly perceptible to the consumers, but even if books and newspapers had been made perceptibly dearer by the tax, it would by no means have followed that any check was put to the spread of knowledge. If there had been no duty on paper some other tax must have been imposed, and the reading public, though they would have had less to pay for their books, would have had more to pay for other taxes. Whether they paid their taxes at the same time that they bought their books, or at different times, could not make much difference to them, since in either case they would have the same sum to spend on books and taxes together. While I cannot share the regret expressed by McCulloch at the repeal of the paper duty, I must admit that he has made out a good case for its retention, and that its re-imposition would be fully justified, if at any future time it were found difficult to raise a sufficient revenue from existing taxes.

There is generally some difficulty in raising a revenue by taxing any article which is produced in the country as well as imported from abroad. The volume which contains Mr. Leslie's article contains another by Herr Julius Faucher, whose object is to show that the slight difference between the duties on home-made spirits and those imported from abroad acts as a protective duty in favour of English distillers. The higher rate on foreign spirits is adopted as a compensation for the restrictions imposed on native distillers which, according to them, placed them at a disadvantage in competing with foreign rivals, but H. Faucher disputes the validity of the excuse. One of the Excise regulations which is compensated in this way is the prohibition against brewing and distilling at the same time, but he denies that there are any manufacturers on the Continent who, by being allowed to brew and distil at the same time, gain any advantage over their English rivals. If this is so it is obvious that the difference between the Customs and Excise duty on spirits acts as a check on importation, and must to some extent relieve the native manufacturers from the wholesome influence of competition, and subject the consumers to a corresponding loss. In some cases, where a difficulty has been met with in levying both a Customs and an Excise duty on a particular article, the knot has been cut by prohibiting its production within the country. So barbarous an expedient has very naturally excited more indignation than it really deserved; but, even at the best, it is a perilous undertaking for a government to debar its subjects from engaging in an occupation which may turn out to be an extremely profitable one, though, of course, it cannot at first be thought of much importance. The celebrated order of the Dutch government to destroy the spice trees in certain parts of its East Indian possessions

has always been cited as an instance of the prompting of a narrow commercial selfishness, and Humboldt could give no stronger instance of the arbitrary tyranny of the Spanish government than its order to the Viceroy of Mexico to destroy the vines and olive trees which had been planted in that colony. Yet the first of these was certainly, and the second may possibly have been, not a wit more tyrannical than the prohibition which is still enforced by our own government against the cultivation of tobacco in the United Kingdom. It is not simply the legacy of a distant age, but the experiment of allowing its cultivation has been fairly tried and abandoned for fiscal reasons. In England, indeed, it was prohibited almost as soon as it had commenced, but in Scotland it was permitted down to the middle of the last century, and was suppressed on account of the difficulty of enforcing the payment of the Excise duty upon home-grown tobacco. Ireland still remained free in this respect; but here again, as in the case of Scotland, as soon as the cultivation of tobacco assumed any large proportions it was prohibited by the government. It was finally suppressed by the Act 2, William IV., cap. 20, "the vigorous enforcement of which," says Mr. McCulloch, "notwithstanding the clamours it occasioned, was highly creditable to the government (p.238)." This prohibition is still made a matter of complaint by Irish politicians; and as some parts of Ireland are well qualified for tobacco culture, it is much to be regretted that so poor a country should have been deprived of one chance of retrieving its fortunes. It does not appear why English officials should find it more difficult to levy an Excise duty on tobacco than their brethren in France, where the culture of tobacco is permitted. Perhaps the real secret of the difficulty is the exorbitant height of the duty which, as it amounts in some cases to 500 per cent., holds out a great temptation to smuggling, and as long as this temptation remains the revenue will always be defrauded, whether it is collected by Custom House or by Excise officers. All the inconveniences of indirect taxes are due to the desire of men in general to evade, by fair means or foul, every tax which they possibly can, and the difficulty in selecting the subjects for taxation of this kind is the same as besets the choice of direct taxes. If the general standard of morality were high enough to render it safe to trust the statements of merchants and travellers as to the amount of taxable goods which they brought into the country, all the delay and annoyance and and half the trouble which attend the establishment of a Custom House would be dispensed with, and duties on wine and tobacco would be as easily collected as the revenue of the post-office. Taxation, however, must be made to suit men as they are, not as they ought to be; and as, in point of fact, indirect taxes do more than direct ones to divert capital

and labour into channels where they would not naturally flow, and to dry up the sources of national wealth, they ought never to be resorted to when it is possible to raise a revenue by direct taxes.

Duties on spirits and other intoxicating liquors find favour with certain sections of politicians, because they appear to combine the advantage of discouraging intemperance with that of yielding a considerable revenue. These two objects are quite incompatible, and it would be much better if financiers confined themselves to the proper function of raising a revenue without trying at the same time to improve the habits of the people. In order to raise a large revenue from an indirect tax, a moderate duty should be imposed on some article which is consumed by great numbers of people, and which is so popular with them that they will not consume less even when its price is higher. Intoxicating liquors are a very proper subject for such a duty, but when the desire of discouraging intemperance is allowed to affect the judgment of financiers the duty is raised to an exorbitant height, and the falling off in the revenue is supposed to be compensated by greater sobriety. The high duty leads to smuggling and illicit distillation, and the diminution in the amount of liquor which pays duty is gravely quoted as if it showed that the people were actually drinking less. It is much like the belief attributed to the ostrich, that it is out of sight of its pursuers when it has buried its head in the sand. The list above quoted of manufactures in which methylated spirits are used is enough to show that diminished consumption implies anything rather than less drunkenness. In order that the minority who drink too much may be prevented from doing so, the majority who drink in moderation are made to pay more than their due, and the whole community is made to suffer from the increased cost of all articles in whose manufacture spirits are used. But even as regards the diminution of drunkenness such expedients always fail. It has been abundantly proved that no penalties and no taxes are sufficient to prevent those who want strong drinks from getting them, and that the more severe the law is made the more determined is the resistance opposed to it. When exorbitant duties have been imposed on spirits smuggling has been carried on on a large scale, and so well organised as even to defy the military force of the government, and it is only when moderate duties are substituted that smuggling can be kept within moderate limits. Even where the duty is paid it does not follow that it is made more difficult for drunkards to obtain drink, for people of this class will part with anything else in order to get drink, and a high price may prevent them from getting other things, but not from getting the one thing of which it is sought to deprive them. A high price, moreover, encourages adulteration, and adulterated drink is more injurious, and

causes more drunkenness than what has been honestly made. Nor is it true that by making it difficult for the poor to get spirits we prevent them from drinking to excess, but, on the contrary, there is every reason to believe that if they were able to get as much as they wanted they would be less likely to drink to excess, than under a system which makes their opportunities few and far between. It has often been observed that the inhabitants of wine-growing districts are habitually sober, and Laing's account of Norway points to the same conclusion. Norwegian farmers are all allowed to distil on their own account, the duty on spirits is a very light one, and it is extremely easy for the labourers to get spirits whenever they choose. The consequence is not, indeed, that the Norwegians are a sober people, but that they drink more regularly, and are not, like English labourers, unable to work for two or three days after they have received their weekly wages. Every one being able to distil for himself, there is little temptation to adulterate, and the people, being allowed to drink when they please, learn to control themselves, instead of submitting to the control of a paternal government. The practice pursued in Australia of entirely prohibiting the use of drink on the stations has a very injurious effect on the shepherds, as it produces a craving for drink which leads them, when they get a holiday, to pass all their time at the publichouse, and to spend in a few days the savings of a whole year; but as it does not unfit them for doing their work when they return, it is a convenient one for their employers. How much better it would be if the simple and rational system pursued in Norway were imitated in England and English colonies. Even if it should bring a little more drunkenness, such a result would be a light price to pay for the advantage of treating men as responsible beings.

It is sometimes said that it is dangerous to trust for revenue to a tax on intoxicating liquors when the growth of temperance may at any time put a stop to their consumption. The opium-tax, which is levied in India, is sometimes objected to on this account; but, in point of fact, a habit which has once taken possession of millions of men cannot be eradicated, except by a long and gradual process, and financiers will have plenty of time to devise some new tax before this class of duties ceases to be productive. China is the principal market for Indian opium, and some dread is expressed lest the Chinese Government should prohibit its importation, in order to protect the interests of native opium manufacturers. But the large extent to which the trade has now grown makes it very improbable that the Chinese Government would venture to brave the complaints which any attempt to interfere with it would be sure to excite, and the resource of smuggling would still be open if importation were prohibited. As regards our own revenue, there is still less reason

to fear that a deficit will be caused by our depending in part on duties on stimulants. If the whole revenue were derived from this source, there might be some reason to fear, lest the falling off in the consumption, such as actually followed the crusade of Father Matthew in Ireland, should cause a serious deficit. But as this is not the case there is every reason to expect that a deficiency under this head would be compensated by an increase under some other. The arguments on this point have been well summed up by Sir Stafford Northcote. If there is a falling off in the consumption it must be either because people cannot, or because they will not, buy stimulants. In the former case, it must be because they are poorer, and, if so, all taxes, from whatever source derived, will yield less; and there is no peculiar danger in trusting to this particular source. In the latter case, it must be because people are becoming more sober; and, if so, they will become more industrious, and the yield of all other taxes will be increased.

The tax on corn, which is known as tithes, belongs to the same class as Excise duties, though its peculiar character entitles it to be considered by itself. The distinction between agriculture and manufactures, that in the former the producer does not know how much he will produce, while in the latter the exact amount of the product is known beforehand, makes a great difference in the matter of taxation. If a tax were imposed on corn which did not vary with the price, it would be very burdensome in years of plenty, and very light in years of scarcity, and the farmers would be kept in a constant state of uncertainty as to the amount which they would have to pay. This difficulty is avoided in the case of tithes by requiring farmers to pay in kind, that is to say, to give one-tenth part of their corn to the tithe-owner who is left to dispose of his share as best he can. The collection of such a tax necessitates the same kind of interference with the producers as Excise duties, and, as in their case, the mode of levying it has far more to do with its oppressiveness than its actual amount. The late Mr. Finlay, whose letters in the "Times" afforded so valuable an account of the condition of modern Greece, pointed to the oppressive manner in which the tithes were levied as the chief cause which hindered the development of that unfortunate country. In order that the tax may not be evaded the government prevents the farmers from removing their corn from the fields until the collector has given permission, and no improved process is allowed to be introduced. The actual destruction of corn which is caused by these vexatious restrictions is considerable, and the check to the prosperity of the country caused by the prohibition of all agricultural improvements is disastrous beyond calculation. The irritation which the system of collection causes among the farmers is so great that the assistance

of soldiers is necessary in order to enforce it, but as the tax yields a large revenue the statesmen of Greece have not yet summoned up courage to abolish it. It has never been contended that tithes have been as oppressive in England as they now are in Greece; but when they were levied in kind they were a fruitful source of vexation, and in Ireland, where the difficulty was aggravated by a difference of creed, it was found almost impossible to collect them from the tenants. As the farmers were obliged to pay more for tithes, according as their land produced more, the tax must have acted to some extent as a discouragement to industry. It would, indeed, cause a corresponding rise of price, but in the case of an article whose price fluctuates so much as that of corn it must be often impossible for the producers to compensate themselves at the expense of consumers. The loss caused by the payment of tithes is certain, while the gain from a rise of price is only probable, and in many cases is never realized, so that it is no wonder that the farmers should regard the tithe-owners as interlopers, who intercept the reward which has been fairly earned by efforts to which they have not contributed. All the difficulties attending the collection of tithes have been removed by the system of commutation, which has now been carried out in almost all parishes, which substitutes a money payment, varying according to the average price of corn for payment in kind. As the payment does not depend on the produce of the particular land which is charged with it, it in no way discourages industry; and as it is based on the average of seven years, its variations are restrained within narrow limits. The tithe-owners have lost something by the change, for they do not now receive anything when waste land is brought into cultivation; but, on the other hand, they do not, as formerly, lose their tithes when cultivated land is built over. Altogether, the system of commutation may be regarded as a most satisfactory settlement of a serious difficulty.

The question respecting the incidence of tithes when levied in kind, now possesses little more than an historical interest, received much consideration from Adam Smith and Ricardo. The former supposed that they fell wholly on the landlords, because a tithe-free farm would fetch a higher rent than one which was subject to the charge. This, however, does not show that no part of the burden fell on the consumers. If the charge was an onerous one it would have the effect of discouraging cultivation, and, in such a case, the price of corn might be raised, though, of course, a farm which was free from the charge would be better worth taking than one which was not. Ricardo, on the other hand, held that tithes fell wholly on the consumers, his argument being that, as they were imposed on good and bad land alike, the cost of pro-

ducing corn on the margin of cultivation was increased by one-tenth, and that the price of corn must therefore rise in the same proportion. This argument would be conclusive if the imposition of tithes made no difference in the habits of the people, and if the same quantity of corn was produced from the same land as before, but it is hardly likely that no change would follow the imposition of such a tax. Although a rise in the price of corn does not diminish consumption in the same proportion, it does, to some extent, check it, and the effect of this must be to raise the margin of cultivation, and thus to reduce rents. Thus, part of the burden would be borne by consumers, who paid higher prices, but part would fall on landlords, who would receive lower rents. Senior, who devoted much thought to the elucidation of this subject,* contends that the effect of the imposition of tithes has been to diminish cultivation, and practically to keep back the population and wealth of the country, and place it in the same position as if its geographical extent had been smaller than it is. As all waste land paid tithes when taken into cultivation, its reclamation was practically discouraged, and the production of food, to some extent, diminished ; but if there had been no such tax, the increase of population would have kept pace with that of food, the cost of which would have remained the same. While, therefore, the immediate effect of their imposition was probably to raise the price of food, this cannot be regarded as a permanent burden on the consumers, since the increase of population would have produced the same result if they had never been imposed. In a country which has only recently been colonised, and where consequently hardly any land pays rent, it is difficult to impose any productive tax on the land, except by making it proportional to the produce; but in a country where nearly all land yields rent it is much better to tax it according to the value as shown by the rent. By this means all interference with farming is avoided, and, if proper care be taken, the tax may be so adjusted as in no way to discourage landlords from applying capital to the improvement of their property. As agricultural produce is not all raised at the same cost, a tax upon it does not produce the same effect as one on manufactured goods, and there is not the same necessity for compensating a duty on native produce by one on foreign imports. Senior, alluding to a tax now repealed, says, "If our present heavy tax on the domestic production of glass were unbalanced by any duty on importation all the English glass works would in time be abandoned. Or, if some of our glass works were free from the tax, and others subject to it, all those which were taxed would be ruined.

* "Political Economy," 4th edition, 1858, pp. 124-6.

But the lands in England which are subject to the payment of tithes are not thrown out of cultivation by the competition of those which are free from that burden, or by the importation of the tithe-free corn and cattle of Scotland, or of the comparatively tithe-free produce of Ireland. The estates which are subject to tithes continue to be productive, they continue even to afford a rent, though the burden diminishes the productiveness and diminishes in a still greater degree the rent" (pp. 125-6). There is, therefore, nothing inconsistent with the principles of Free Trade in allowing foreign corn to come in duty free while the corn-growers of this country are subject to this burden. Without going into the question whether foreign corn-growers are subject to equal burdens, it is enough to say that the charge imposed on natives does not prevent them from engaging in the business and competing with foreigners, and that it is only imposed on them by the government in order to provide for an expenditure which, whatever may be thought of its propriety, is engaged in for the benefit of its subjects, and for which landowners may be fairly called on to contribute. Whether foreign corn be imported or not this country will probably always depend in part on its own harvest, and the price of corn will always be high enough to make it profitable to raise it on land which is subject to tithes and other charges. As long as this is the case farmers can have no reason to complain of partiality shown to foreigners by admitting their produce duty free. If the tithes have prevented some land from being farmed the loss has been incurred in order that the government might raise a revenue for a particular purpose, and all subjects must submit to some loss in order that this object may be obtained. The commutation of tithes has made so great a difference in the mode of their collection that hardly any of the arguments which were applicable to the old system are applicable to the new. As the charge is now imposed only on land which was formerly subject to them, and is of nearly the same amount as when the commutation was settled, varying only according to the price of corn, they have now become a mere incumbrance on certain lands, to be regarded by the purchaser in much the same light as a mortgage. As land subject to a mortgage or an annuity would fetch less than similar land unencumbered, so tithe land fetches less than that which is tithe free ; and the State has, as it were, constituted itself part owner of certain lands, and applies its share of the produce to its own purposes. When it is decided to disestablish the Church of England the tithes should not be regarded as a tax on a particular class who ought to be relieved of the burden, but as a portion of the national domain which has been applied to one purpose and may justly be used for any other. If it be thought undesirable to retain the present mode of assessing the

tax, some corresponding burden should be laid on tithe land, by taxing it in proportion to the rent.

As so many of the taxes from which the revenue of the English Government is derived have been objected to, in the preceding pages, on various grounds, it may be thought that the argument serves rather to show how a revenue cannot, than how it can, be raised. A practical answer is, it may be thought, supplied to all these objections by the simple plea that a revenue must be raised somehow, and that it is better to bear the ills we have than to fly to new modes of taxation, which may cause other ills which we cannot foresee. There is, no doubt, much force in this plea, and no one will suppose that the abolition of indirect taxes can be brought about except by a slow and gradual process. But in order that the means may be found for carrying out this, or any other change, the first thing to be done is to convince people that it is desirable, and when this has been effected statesmen will be found capable of carrying the popular wish into practical effect. Already many duties, which once yielded a large revenue, have been abolished, and the English tariff is wonderfully narrow in comparison with those of other countries. Mr. Leslie proposes that the duties on intoxicating liquors should be retained for the present, but as the trouble and annoyance of a Custom House system will endure as long as any duties are retained such a partial change would do very little for the relief of industry. There are three sources to which we may look to provide the means of dispensing with indirect taxes altogether. We may reduce expenditure, we may obtain more from existing taxes, or we may impose new taxes of a direct kind. Very little can be expected from the first of these, as so large a proportion of our expenditure is devoted to the interest of the national debt, and to the maintenance of the army and navy, which cannot be dispensed with. There is, indeed, some reason to hope that the amount of the debt will be permanently reduced, but the reduction will be too small to allow of any great reduction of taxation. Measured in money, the expenditure under other heads is pretty certain to increase as the depreciation of gold continues, and as the increase of population and wealth makes a larger staff of officials necessary. There are, indeed, some functions which the government undertakes which might be much better performed by private individuals, but even if all these were abandoned there would still remain the necessity of spending a large revenue in protecting the people against domestic and foreign violence. The increased yield of existing taxes can be relied on with more confidence, as the revenue has steadily increased, in spite of the repeal of so many taxes, during the last ten years. Even if no change were made in our financial system, the natural progress of industry would increase the yield of the taxes, and

this might be expected to take place in a still greater ratio if trade and manufactures were freed from the trammels to which they are now subjected. No duties being levied on native or foreign products, there would be no reason for the government to single out certain places in which production or trade should be carried on. Every one would be free to make whatever goods he could dispose of, and to dispose of them in the place, time, and manner most convenient to himself and his customers. Many parts of the country in which it is not now worth while to make railways, or to set up workshops, would become centres of trade and industry, and these would bring in their train the intelligence and education which fit people to produce wealth and enable them to bear taxes. There would not be a mere shifting of population and wealth from one place to another, though even that would be a gain to the country, but there would be an actual removal of all the obstacles which now prevent improvements in so many branches of manufacture. While free play would be given to native enterprise the stimulus of foreign competition would be ever acting to force the more indolent producers to adopt improvements or abandon the field. Something, though not very much, may be set down for the effects which the example of England would produce on foreign countries. As long as duties are imposed on foreign products it is reasonable to expect that English goods will be taxed in foreign countries, and, though it by no means follows that the abandonment of the Custom House system by England would be imitated in foreign countries, it would at all events weaken the arguments in favour of retaining it. The partiality alleged to be shown to native distillers in the assessment of the English spirit duties is referred to in Germany as a reason for retaining protective duties on English iron, and the wine growers of Spain and Portugal urge in like manner that as the English wine duties are unfavourable to them, their governments ought not to make any concession for the benefit of English manufacturers. With the abolition of import duties, all such complaints would cease, and if the practical example were shown of the possibility of raising a large revenue, without putting any obstacle in the way of trade, it could hardly fail to have some effect; and, even if no other government were bold enough to go to equal lengths, a great reduction in the number of articles liable to duty might be expected, and would be a great benefit to English producers. With the repeal of every duty some fresh outlet for English industry would be opened, and the capacity of the country to bear direct taxation would be daily increased. There remains the third resource for filling the gap created by the abolition of indirect taxes—namely, increased direct taxation. The chief difficulty in the way of raising the whole revenue

by direct means is that of collecting taxes from the poorer classes. It is so much more easy to collect a few large sums from a small number of people than many small sums from a large number, that a system which admits of the easier course being adopted naturally finds favour with financiers. It is, however, quite possible to establish a system of collecting direct taxes which will reduce the cost to a very small figure. Direct taxes on labourers would most probably be levied either on their wages or on their houses, and in the former case, their employer, and in the latter, their landlord might pay what was due from a great number, and deduct the amount from their wages, or add it to their rent. The tax, although not immediately paid by them, would make itself felt as forcibly as one which was actually paid to tax collectors, and they would know exactly how much they paid, and why they paid it. It cannot be said that the labourers cannot bear direct taxes, for the burden which they now submit to when they buy tea and tobacco is quite as heavy as would be imposed on them if an equal revenue were raised by direct taxes. An increase of the Income-tax, in its present form, cannot be recommended; for, though it is extremely productive, it leads to much evasion, fraud, and discontent, and inflicts as much annoyance on traders as the indirect taxes from which they seek to be relieved. But if some system like that employed in assessing the "Klassensteuer" in Prussia were adopted, by which incomes were divided into classes, taxed at different rates, some approximate equality might be obtained without the inquisitorial annoyance which our present system involves. There is still much to be done in the way of improving and equalising the taxes on succession to real and personal property, both of which, especially the former, would bear some increase. Something might be obtained by a higher tax on houses, and, speaking generally, the relief afforded to the taxpayers by the lower prices which they would have to pay for the chief articles of their consumption would make them both able and willing to bear much higher direct taxes than can now be imposed. The system of levying indirect taxes conceals from the people the amount which they really have to pay, but when the veil is removed, and every one knows exactly what he is paying, the burden may seem heavier, but will, in reality, be much lighter.

CHAPTER IV.—NATIONAL DEBTS.

NECESSITY OF NATIONAL DEBTS—METHODS OF FUNDING—REDUCTION OF DEBT.

As nearly every tax which can be proposed is open to some objections, and many which are actually tried are extremely injurious, it is natural that some attempt should be made to devise a plan for raising an extraordinary revenue without resorting to fresh taxes. There are two ways in which they may to a certain extent be done—namely, selling landed or other property belonging to the State, or by borrowing money from natives or from foreigners. Neither expedient can do away with the necessity for raising fresh taxes, but they both secure the object of raising a large sum without at the same time laying a heavy burden on the taxpayers. If the public domains are sold, the government loses the rents which they afford, and fresh taxes must be imposed to supply the deficit. There are a few cases in which this mode of raising money is a positive advantage to the country, for the management of public domains being generally worse than that of private estates, their transfer to private individuals or companies has the effect of rendering them more productive, and increasing the total wealth of the country. This course has been pursued by the Spanish Government during its recent struggle with the Carlists, and the effect has been that many of those parts of Spain not actually touched by the war have been quickened into industrial activity by the English and other capitalists, who have bought valuable mines which the goverment was unable to utilize. Such a course, however, can obviously be only pursued for a time, and there are few countries where the public domains have not already been too much curtailed for much dependence to be placed on them in the time of need. It is, moreover, a short-sighted policy, as it makes the government part with what is always increasing in value, and might, if kept unimpaired, supply the whole, or nearly the whole of the revenue. The other course, that of borrowing, equally requires some increase of taxes, for no loan can be obtained for any length of time without interest being paid to the lender. But as the amount of the interest is very much smaller than that of the loan, its payment entails a much smaller sacrifice, and the system is naturally popular both with financiers and with taxpayers. As in the case of indirect taxes, this very popularity makes borrowing a dangerous expedient, and the mere fact that the

burden is not visible makes it easy for statesmen to incur expenditure which they might never have ventured upon if the taxpayers had been able to see how much they were paying, and why they were paying it. It is needless to cite contemporary instances of foreign countries, where the system of borrowing, once commenced, has encouraged extravagance, which has ended, at last, in repudiation or bankruptcy; but our own recent history furnishes a warning of the same kind. If, when the proposal was made to purchase the telegraphs, there had been no other way of raising the money than by imposing taxes to the full amount in the years over which the payment was spread, it is most likely that they would be still in the possession of private companies. But when it was known that the required amount could be easily raised by a fresh issue of consols, the interest on which, being confounded with that of the rest of the debt, attracts no particular attention, it was very easy for the ministers to persuade Parliament and the public that the profits of the concern would pay the interest on the loan. We have now to bear the burden of the interest, while the receipts scarcely do more than pay the working expenses, while any proposal to raise the charges for telegrams, so as to make them profitable, is denounced as "retrograde." But as there are cases in which a great outlay is absolutely necessary, it is fortunate that there is a method of providing for it, without imposing so severe a burden on the people as would be necessary if the whole amount had to be raised by increased taxes. The principal, if not the only, case in which borrowing is uecessary, is where a country is engaged in a costly war. Very little importance can be attached to the plea, that if the resource of borrowing were cut off nations would not engage in useless wars, or would conclude peace after a short struggle. When a people are engaged in war the passions by which they are swayed are hardly ever checked by financial considerations, and the difficulty of borrowing tends not so much to prevent governments from continuing the struggle as to make them use more unscrupulous and arbitrary measures in carrying it on, as is exemplified by the recent history of Spain. The expenses of the war in Navarre and Cuba have compelled the Spanish Government to let the interest on its debt fall into arrear, and, in fact, to leave unpaid almost every claim which it could possibly evade; but the determination of the Government to suppress both insurrections remains unshaken, and money is still found for supplying the armies with provisions and ammunition. The practice of funding is not the cause of wars any more than it is the cause of debts, but without it wars would be more disastrous, and debts would be left unpaid. The question whether it is better in a particular case to raise a loan, or to obtain the required

sum by taxation, depends on the question whether the imposition of a new tax would impede the growth of the national industry, and deprive the people of much more wealth than the tax transferred to the government. The practice of raising loans in time of war is justified, because at such a time the people are impoverished by the interruption of the natural course of industry and trade by the closing of some foreign markets for their produce, and by the withdrawal of numbers of able-bodied men from productive labour. To impose a new tax is always a hazardous undertaking, and to do so on a large scale in time of war would be to cripple the resources of the country, and to make the people not more but less able to make head against the enemy. At such a time very little care can be taken to select proper taxes, and if this be not done the new imposts serve merely to cripple industry and to encourage smuggling, and thus at the same time to impoverish the people and waste the energies of the government in counteracting its own blunders. If the war be a costly one, a government which refrains from borrowing has hardly any other resource than that of levying contributions in kind from the inhabitants of the invaded districts, and the misery which such a system produces is far greater than what is caused by large loans, the interest on which is spread over a long series of years. Frederick the Great contrived to carry on the seven years' war without resorting to loans, but the condition of his people at the end of the struggle was far worse than it would have been had he followed the example set by England. One obvious advantage of the system of borrowing is, that it enables a government to derive assistance from foreigners, who could not be made to contribute if all the money were raised by taxes. It is well known that the United States, during the civil war, and the French, during their more recent war, were greatly aided by loans subscribed in London; and the facilities which are now afforded for the transmission of money from one country to another render it possible, and even easy for a government to get help of this kind from the people of the very country with which it is at war. When the whole loan is subscribed by natives the immediate advantage, though not so great, is still considerable. In whatever way the money is raised the loss to the country is the same, for it consists in the destruction of the provisions, ammunition, buildings, and other things which war makes necessary, and in the employment of large numbers of men in unproductive labour. But though borrowing does not diminish the loss it spreads it over a larger surface by pledging the whole people to compensate, by slow degrees, the loss which a few individuals are content to bear. If the government, after raising a war loan, neglected to pay the interest, the effect would be that the individuals who had subscribed to it would be made to bear the

whole expense of the war from which they derived no greater benefit than the rest of their countrymen. The payment of the interest is the compensation which the whole nation pays to those who have come forward in time of need, by allowing them henceforth to live wholly or partially at the expense of their fellow-citizens. The system thus creates a body of unproductive consumers, but such a class is sure to exist in a country where labourers have enough strength and skill to support others besides themselves, and the burden imposed on the productive classes is less than they would have had to bear if no loan had been raised. When the whole of the interest of the national debt is due to natives it is obvious that it makes no difference to the wealth of the country whether it is paid or not, and that repudiation, scandalous as it would be, would merely transfer a certain amount of property from a part of the nation to the whole. The amount of the national debt cannot be reckoned as a part of the nation's wealth, for it is simply a sign that a certain portion of it has been assigned to certain creditors, and to suppose that its existence shows an increase in the wealth of the country would be as absurd as to suppose that a parish is enriched when one of the landowners mortgages his estate. If part of the interest is due to foreigners, repudiation would, of course, increase the wealth of the country, by relieving it from a burden, but there would be no addition to the wealth of the world. It has been urged that the practice of raising loans, the interest on which is to be paid in perpetuity, is wrong, because it imposes a burden on posterity, which the present generation has no right to call on them to bear. But, in fact, when a loan is raised for the purpose of carrying on a just war, it is quite as much for the sake of posterity as for that of the present generation that the sacrifice is submitted to. The present generation sacrifice their lives, and they may fairly call on posterity to submit to some sacrifice of money, which is the only way in which they can contribute to the common object. It is not the generation which fought under Grant and Sherman, but the children now growing up in the Southern States, and the emigrants who will hereafter settle in America, who will reap the full benefit of the anti-secession war; and they can have little right to complain if, by paying double taxes, they can be admitted to the fruits of that momentous struggle. As a mere question of money, it must be borne in mind that what justifies recourse to loans is the difficulty of raising fresh taxes without shackling production, and that if posterity have to pay the annual interest they have been enabled to keep unimpaired the capital and industrial appliances, which afford the means of providing for the payment. When a government raises a loan, for the purpose of carrying on a railway, or any other

industrial undertaking, it simply does what private capitalists do in like circumstances; and if a proper selection be made, the profits of the concern will pay the interest on the loan, and no burden be imposed on the taxpayers, whether present or future. It is, however, unusual and difficult for a government to make a good selection, and it would be well for many foreign countries if their rulers would cease from making the attempt. The phrase, so common in prospectuses, of "developing the resources" of a country, is nowhere more delusive than when it appears in the speech of a minister proposing a new loan, which is almost sure to develop a deficit, while leaving the resources of the country in much the same state as it found them. Such loans impose a burden on posterity, without doing any good to the present generation, and it would be well if statesmen would understand that if the resources of a country cannot be developed by private enterprise it would be better to leave them undeveloped. Unwise as it is to raise loans for such purposes, there is another class which are even more foolish and injurious —those which are raised in time of peace, simply in order to make up for a deficit. It is often absolutely necessary that a government should borrow for some temporary emergency, when the revenue has not come in as fast as was expected. But when this happens fresh taxes ought to be imposed, in succeeding years, to pay off the debt. But to raise a permanent loan, in order to supply a deficit, is as useless as it is for an individual who lives beyond his income to supply his wants by borrowing. Not only is the deficiency increased in succeeding years by the amount of the interest of the loan, but the practice, once indulged in, is sure to be carried further, and no effectual attempt at economy can be made while such a resource is open to improvident financiers. The recent history of Turkey and Peru is enough to show how futile are all such attempts to evade the necessity to which governments and individuals must submit, of keeping their expenditure within their income. But the mere fact that the system is liable to abuse does not show that there are not cases in which it may be used with advantage, and resorting to it, in time of war, is often the only way of saving a country from very severe disasters.

There is another plea which is sometimes put forward in favour of maintaining a national debt, which, although not altogether unfounded, will not bear serious examination. When the credit of a government has been established by punctual payment of the interest on its debt for a long series of years, the funds come to be regarded as the safest of all investments, and it is so useful to have some stock in which such general confidence is placed that it is sometimes urged that it would be worth while to maintain a national debt, even if the government were able to dispense with

it. McCulloch goes so far as to admit that it is difficult to see how the trades of banking and insurance could be carried on unless the companies engaged in them were able to invest in the funds some of the money which they may at any time be called on to pay. As for the practical question, it is enough to reply, that banking and insurance were carried on with success in the United States during the period of 1836-60, when that country was free from a national debt. But, even granting that if our national debt were paid off, there would be no suitable investment for the spare funds of banking and insurance companies, the worst result that could happen would be that they would have to keep a larger store of gold and notes, and would pay lower dividends than at present. It is not the business of the government to see that these trades are carried on at a profit, and if the customers were made to pay more for the accommodation they receive they would have at the same time to pay lower taxes. But, in fact, there is every reason to believe that if the national debt is ever paid off some other fund will be provided which will serve this purpose. As its amount is smaller now than it was sixty years ago, it is obvious that much of the work which it formerly did must now be done by other funds; and it is well known that trustees have largely availed themselves of the greater latitude which is now allowed them in the choice of investments. What is it after all that makes the funds such a safe investment? It is the certainty that whatever misfortunes may overtake particular trades, or particular parts of the country, the industry of the whole country will produce enough to meet a certain fixed charge, and that the people will be honest enough to keep their pledged word. Private companies are quite able to give equally solid guarantees, and if there were no public funds to supply the want, it might, and probably would, be done by some of the principal companies acting singly or in consort. It may be looked on as certain that the principal railway companies, whatever their success in particular years, will always earn much more than their working expenses, and a first mortgage on one of these lines, the interest on which would take precedence of every other charge, might be regarded as a perfectly safe investment. Already the leading lines are able to borrow money at 4 per cent. by means of debentures, and a purchaser of Bank of England stock receives less than this percentage on the money invested. If the transfer of debenture stock were made, as it might easily be, as cheap and easy as that of consols, it would, when issued by strong railway companies, by the Bank of England, or any other institution enjoying a good and long-established reputation, fulfil all the purposes which the public funds now fulfil, and would sell at quite as high a price. The interest on the stock would be furnished from the earnings of the companies, and all

the inconveniences which are inseparable from the collection of taxes would be avoided, while an equally eligible investment would be afforded to those who wished to live on the interest of their money without incurring any risk or trouble. If, however, it should still be thought necessary for the government to guarantee a certain rate of interest to cautious investors, it would be easy to obtain this object without raising a large national debt. The policy pursued by the Indian Government, in its dealings with the railways, exemplifies one of many ways in which this might be done without imposing any considerable burden on the taxpayers. It guarantees to the shareholders a certain dividend, and stipulates that if the earnings of the railways exceed this amount the surplus shall be divided between the government and the shareholders. The amount which the Government has to make good is small in comparison with the fund which it thus guarantees, and if the same course were followed in England a great benefit would be conferred on trustees and others at a very slight cost to the taxpayers. I submit, however, that it is not the business of Government to provide its subjects with safe investments, and that the best thing it can do for them is to protect them in the enjoyment of their property, and leave them to find out the best means of employing it.

With a view of lightening the burden imposed on posterity some governments have raised loans by selling annuities for terms of years or for lives, while others have undertaken to pay off the principal in a specified time. But, though these expedients appear to show more regard for the welfare of posterity than the establishment of a perpetual charge, they are in many ways so objectionable that the more prudent governments have now abandoned them. Under all these systems a much larger annual charge must be borne than where the annuity is perpetual; and even if this were not so, they would still be open to serious objections. The government which sells a terminable annuity may think that it is guarding the interests of posterity, but the individual who buys it must be sacrificing the interests of his descendents to his own. Where such a system is carried out on a large scale it must generate a spirit of reckless selfishness among a great part of the people, which would lead to moral as well as economic evils of the most serious description. Of course, it is open to those who invest in these annuities to reinvest so much of the interest as will replace the principal by the time that the annuity expires; but, unless it has been purchased by a public body obliged to do so, such a course would be very seldom adopted. The practice of undertaking to pay off a loan in a specified number of years, although not open to these objections, can hardly be recommended on financial grounds. In order to secure impartial treat-

ment for the bondholders it is arranged that the bonds to be paid off shall be drawn by lot, which introduces a certain element of gambling into the business of investment. A government, moreover, which binds itself to redeem at par, of course, prevents the price of the stock from rising much above par, and by fixing the period over which the redemption is to extend, deprives itself of the power to take advantage of the state of the market in order to reduce the interest. It is, therefore, a wiser plan to offer to the subscribers a perpetual annuity, reserving the right to redeem it by paying off the principal originally lent, or by purchasing at the market price of the day. This is the course which has long been adopted in England and France, but, unfortunately, the method in which it has been carried out has not been the best that could have been chosen. It may be laid down as a general principle that the interest on a new loan of any considerable amount is higher than on an old-established stock. The explanation is, that it is convenient to many people to withdraw their money from present investments, and those that consent to do so must be compensated for their trouble by higher interest. As time goes on more investors gradually come in, the original subscribers transfer their holdings, and if the credit of the Government remains unimpaired, and no fresh loan is brought out, the investing public are quite as ready to lend a larger sum at the same rate of interest as the smaller one which they had formerly entrusted to their government. The system on which much of the public debt of England and France has been contracted has deprived the taxpayers of the advantage which they would have obtained if due attention had been paid to these considerations. The English Government can generally borrow at somewhat less than 3½ per cent., while the French Government can generally do so at about 4½ per cent.; but whenever either has been obliged to raise a large loan it has had to pay much higher rates. It might have been foreseen that the rate of interest would fall when borrowing ceased; and care ought, therefore, to have been taken to secure the benefit of the fall to the taxpayers. This might have been done by reserving the right to redeem the annuity at any time by paying off the sum actually lent, and by agreeing to pay whatever rate of interest the lenders exacted when the loan was brought out. The English Government was sometimes, during the war with France, obliged to pay as much as six per cent.; and if a six per cent. stock had been created, the holders might have been induced, after the war was over, to accept five, four, and, eventually, 3½ per cent., when they had no other alternative than that of being paid off. But the course actually adopted was that of creating a 3 per cent. stock, and crediting the subscriber with twice as large a sum as he actually advanced; and the Government precluded

itself from reducing the interest; unless it could offer the holders the repayment of this larger sum. Thus the nominal amount of the debt was doubled, stock being issued at 50, which has since risen to more than 90, and the government is precluded from reducing the interest. It might, indeed, and often does, purchase its own stock below par, and cancel it, but even when it does so the price is so much above that at which it was issued that the taxpayers are made to repay more than was ever received. The nominal amount of the English debt is one-third more than the actual amount received by the Government, and the permanent addition thus made to the taxes is no inconsiderable burden. A similar system has been pursued in France, the latest instance being that of the loan raised, in 1872, to pay off the war indemnity. France had not then recovered from the effects of the borrowing which had taken place during the war, and even if there had been no recent loans, the issue of one for three milliards would have been enough to raise the rate of interest. Instead of being able to borrow at 4½ per cent., the French Government was obliged to pay six, and the best course, in such circumstances, would have been to issue a 6 per cent. stock at par; or, at least, but little below it. Instead of this, a 5 per cent. stock was issued at 84, and the consequence is that whenever it is paid off the government must return 100 francs for every 84 which it has received. The price of the stock rose to par within three years from the time of its creation, but the taxpayers derived no benefit from it. Had a 6 per cent. stock been created it would by this time have been possible to redeem it by a new stock, bearing interest at the rate of 5 or, perhaps, even 4½ per cent., and a saving would have been effected of one-sixth or a quarter of the interest, which, on so large a loan and in so heavily taxed a country as France, would have been a gain of no slight magnitude. It is objected that to issue a stock at par is to deprive those who invest in it of the advantage to be gained from a rise in the price, and that stocks issued in this manner would not be so readily taken up. There is no doubt some force in this objection, but, in point of fact, there must always be room for some fluctuations of price, even when it is known that the stock may be redeemed at par. The French 6 per cents., and more recently the 5 per cents., did rise above par, although it was well known that both of them might be redeemed, as the former actually has been. The Government cannot well undertake to redeem a stock unless it is able to raise a fresh loan at interest at least a half per cent. lower, and the price must rise 5 or 6 per cent. above par before such a step can be ventured upon. There would, moreover, be no harm in issuing a stock at one or two below par, and thus allowing some chance of profit to those who are

not content with high interest. Even if it were necessary to pay an additional quarter or half per cent., in order to place the whole loan at par, such a temporary loss would be far outweighed by the advantage of being able to reduce the interest as soon as the particular emergency was passed. The point to attend to is that those who advance money to the government in time of need make a temporary sacrifice, and that care should be taken that they only receive a temporary reward. By issuing a stock bearing high interest, and subsequently replacing it by others bearing lower interest, the government pays in time of need as much as the lenders can exact, and, as soon as the emergency is over, gains the full benefit to which it is entitled by its character for stability and honesty.

Although experience has shown that the best course for a government to pursue, in raising a loan, is to sell perpetual annuities, it by no means follows that no attempt should be made to reduce the amount of the debt. English financiers have, indeed, never lost sight of this object, although their attempts at reduction have not yet produced, and are not likely for a long time to come to produce, much effect. The same reasons which make it desirable to incur a debt apply with more or less force against all attempts to reduce its amount. Borrowing is resorted to in order to avoid the necessity of imposing taxes, which interfere with industry; and to impose injurious taxes, in order to pay off the debt, would be to shackle production in order that at some future time it may be left unshackled. The unpopularity which attaches to every proposal for a new tax makes it extremely difficult for one to be imposed for the sake of so remote a gain as would be derived from a future reduction of taxation; and hence it is generally found that the eagerness of the people to reduce the debt soon melts away after a few years' experience of heavy taxes. Thus, immediately after the termination of the American civil war, the Federal Government made astonishing progress in reducing its debt; but after six or seven years of peace the impatience of the taxpayers became too powerful for the government to resist, and it has since almost confined its attention to the reduction of the interest. There is every reason to believe that every country which now possesses a considerable debt will continue burdened with it, if not for ever, at least for as long a period as it is possible for the present generation to look forward to. Some of the attempts which have been made in England and France to reduce the debt have been better calculated to inveigle the public into a belief that a great reduction had been effected than to confer any real benefit on the taxpayers. If the debt is to be really reduced, a sum must be taken out of the surplus of revenue over expenditure, and employed in paying off the fundholders, or in purchasing

stock on which no further interest should be paid. Where this course is adopted, the amount of the debt is really reduced, and the surplus of succeeding years is increased by the diminution of expenditure under the head of interest. But the scheme which was devised by Dr. Price, and carried out by Pitt, was an attempt to make a single payment do the work of twenty. Commissioners were appointed, who were first credited with a sum of money to be invested in the purchase of stock, and were then ordered to employ the interest in further purchases, and it was supposed that the whole amount of which they thus became possessed was subtracted from the total of the debt. It is clear, however, that by reinvesting the interest no greater reduction of the debt is effected than would have been if the amount originally purchased had been immediately cancelled. The taxpayers got no relief, for the interest on the stock held by the commissioners was as regularly paid as that on the rest of the debt, and the expense of the office was, of course, defrayed out of the taxes. When the system was abolished some relief was obtained, for the payment of the interest was discontinued, but this might have been done quite as well if the stock had been cancelled in the first instance. A somewhat similar system, though, perhaps, even more absurd, was carried on in France under the second empire. A very large sum, about 200,000,000 francs, was paid over each year to commissioners for reducing the debt, but as the revenue did not afford any such surplus the Government was obliged to borrow money to defray its expenses, and it borrowed from the commissioners, who were thus professing to reduce the debt while they were really filling up an artificial deficit created by a payment made to them; thus the government lent with the right hand and borrowed with the left, and it is unnecessary to say that such a system is not only useless, but wastes the taxpayers' money in keeping up the office which carries it on. The system which is still pursued in England, although not so absurd as the two which have just been described, is yet arranged so as to appear more advantageous than it really is. It is provided that a quarter of the surplus revenue of each year shall be paid over to the commissioners for the reduction of the national debt, who are to invest it in stock, which is thereupon to be cancelled. In order that such a system may be properly carried out, the surplus ought to be ascertained at the end of each financial year, and a fourth part of it should then be paid over to the commissioners. But, instead of this, the accounts are balanced once in three months, and the commissioners are credited with a quarter of the surplus of the preceding twelve months. If the revenue came in, and the expenditure continued at the same rate all the year round, it would not matter whether the accounts were balanced once a quarter or

once a year ; but there is much irregularity under both these heads, and the consequence is, that if the commissioners received all to which they are entitled there would be a deficit in some quarters, which could not be made up by the superabundance of others. It has accordingly been provided by a later Act that the Treasury may suspend the operation of this sinking fund whenever the state of the revenue requires it, and this power is constantly exercised. Still, however, the amount transferred to the commissioners is published every quarter, while the order of the Treasury, which prevents them from applying it, is not published, and the public are misled into the belief that a larger reduction of the debt has taken place than is really the case.

As the great difficulty which besets all attempts to reduce the debt is the unwillingness of the taxpayers to submit to a present sacrifice in order to avoid the necessity of a future sacrifice, financiers are obliged to resort to various expedients in order to make it appear that the persistence in a particular plan of reduction is required by public faith. When the method adopted is that of drawing a certain number of bonds every year and paying them off, there are the bondholders who have invested their money on the understanding that their bonds will be drawn at some time or other, and financiers can refer to them as persons who would be injured, if the process of cancellation were stopped. As, however, the difficulty can be met by the issue of a fresh loan, the adoption of such a system does not secure the imposition or retention of taxes for the purpose of reducing the debt. The system of devoting a portion of the surplus of each year to the purpose does not produce much effect, because, whenever the surplus is large, the taxpayers naturally wish to benefit by the abolition or reduction of taxes. It is of little use to enact that a certain definite sum shall be set aside every year for the reduction of debt, because, whenever it is necessary to impose fresh taxes, it is at once suggested that the necessity may be dispensed with by stopping the process of reduction. Nobody is entitled to have his stock paid off, and nobody therefore loses, when the process is stopped ; while the taxpayers gain by being spared the imposition of fresh taxes. It is thus that all attempts which have been made in this country to set aside a definite sum to the reduction of the debt have been abandoned as soon as any financial difficulties have arisen. The last instance in which the attempt was thus abandoned, was immediately after the Crimean war ; but, in spite of such recent experience, Sir Stafford Northcote, the Chancellor of the Exchequer, induced Parliament, in 1875, to agree to another, by fixing a certain sum to be paid every year towards the interest and extinction of the debt, more to be applied to the latter object, as less was wanted for the former. It was pointed out by Mr. Gladstone at the

time that all such attempts had failed, on account of the impossibility of binding future Parliaments; but the Chancellor and the House determined to make the experiment once more, though Mr. Disraeli admitted that an exceptional case might arise in which it would be proper to abandon it. Looking at the experience of the past, it is to be expected that such exceptional cases certainly will arise, and that, when they do, the Parliament of that day will act as its predecessors have done. It must be admitted, however, that the system which Mr. Gladstone has carried out with so much success differs very little from that of Sir Stafford Northcote, and was very nearly shipwrecked on the same sand-bank. His system consists in exchanging consols for a terminable annuity, paid to commissioners, who are bound to set aside a certain sum every year for the purchase of stock. The difficulty of exchanging consols for a terminable annuity is avoided by using the money deposited in the post-office savings' banks, while the depositors are protected from loss by the setting aside of a portion of the annuity. Under this system, as under that of Sir Stafford Northcote, there is really no one who would be injured if the payment were stopped, and it was not without difficulty that Mr. Gladstone contrived to save it on the first occasion when an increase of taxation was required. Its only merit is that it presents the appearance of a claim on the part of certain creditors, but this appearance is strong enough to have preserved the system in operation for many years, and there is every reason to believe that it will survive that which has been revived by Sir Stafford Northcote. It may be hoped that as the wealth of the country increases the taxpayers will be more inclined to submit for a time to moderately heavy taxes for the sake of obtaining the much greater relief which a great reduction of the debt would bring them, and that it will not be necessary to resort to any disguise to induce them to do so. The desirableness of reducing the debt, if it could be done, without any great sacrifice, hardly needs to be further pointed out. Every tax inflicts some loss on the people beyond the actual abstraction of so much money from them, and the relief which would be afforded by paying off the whole, or even half, of our national debt would be enormous. There is, however, a phrase, which has been frequently used by Mr. Laing, which implies that reduction is in itself undesirable. Instead of applying money to this purpose it would be better, he tells us, to leave it "to fructify in the pockets of the people," He seems to think that those fund-holders who were paid off would not make their money fructify, though why this should be assumed is by no means apparent. Those who have invested in the funds are not the class of people who waste their money or allow it to lie idle; and if they were paid off they

would take care to find some other investment which would fructify, as far as they were concerned. Perhaps Mr. Laing thinks that it is unwise to employ, in paying off a loan at 3 per cent., money which, if employed in business, will yield 5 or 10 per cent.; but the reduction of the debt does not imply that any such losing process would be carried on. The capital which is represented by the amount of the debt has been already destroyed, for it was consumed in maintaining our fleets and armies, when the debt was contracted. Whatever may hereafter be paid to the fundholders will not be so much capital withdrawn from production, but will simply be taken from the large surplus which is annually produced beyond what is required to maintain production in full activity. The reduction of taxation, which would follow on the extinction of the debt, would remove so many obstacles to trade and industry that the capital possessed by the people would fructify even more than it does at present.

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